

7.2 Encouraging Foreign Investment

Introduction

The proposed industrial development programs comprise a number of projects which would require promotion on the basis of joint-venture with foreign investors, and to this end, intensive promotion for foreign investment would be essential.

In encouraging foreign investment, there are two requirements which have to be instituted. These are:

- a. Preparation of investment conditions more attractive for foreign investors in terms of legislative and institutional setups and industrial/business infrastructure, and
- b. Undertaking of intensive activities for foreign investment promotion.

In general, Oman's investment conditions are favorable for foreign investment. Nevertheless, there are some areas in which improvements would be needed in order to prepare for more attractive conditions.

Furthermore, even if those conditions have been well prepared, it seems hard to spur foreign investment in Oman unless vigorous inducement is done to potential foreign investors, because majority of the world's industrial communities has little knowledge about Oman, except for its endowment of oil and natural gas resources. And, further, it scarcely provides any significant features for industrial investments that will attract particular attention of foreign industrial concerns due to relatively small domestic markets and limited resources available. In order for Oman to promote foreign investment, it is crucial to undertake strategic promotion activities in a well-organized manner and to introduce Oman widely among industrial concerns abroad to induce their interest in specific industries or projects in Oman.

Program 2-1: Legislative preparation for the improvement of foreign investment conditions to make more attractive for foreign investors

Program Description

(1) Legislation for foreign investment promotion

The Foreign Investment and Business Law (Royal Decree No. 4/74) was promulgated in 1974. This law provides the regulations concerning the foreign investment and business undertaking by foreign capital in Oman, which regulates the business fields allowed for foreign capital, maximum limit of foreign ownership and procedure for application to be filed and license to be granted with the government

authorization for foreign investment or business undertaking with foreign capital in the country. But there is no stipulation the provision of legal assurance and incentives to be provided for foreign investment that serve as the fundamentals for foreign investment promotion.

The Government has provided several incentives for investment in industry under the Law for the Organization and Encouragement of Industry promulgated in 1978, which are applied to foreign investment as well as domestic investment. For foreign investors, however, this law is implicit on whether those incentives are applied to foreign investment and, also as to what extent the incentives are provided.

Foreign investors require a legal basis explicitly stipulating legal assurance on foreign investment and also incentives and privileges to be provided. For intensive promotion of foreign investment, it is recommended to examine the set-up of an omnibus legislation for foreign investment promotion, which includes:

- 1) Statement of the national policy and objective of pursuing foreign investment promotion;
- 2) Definition of industrial fields to be promoted and vice versa restricted for foreign investment;
- 3) Regulations on foreign investment and administrative procedures for application to be filed and license to be granted on foreign investment;
- 4) Provisions for legal status and legal assurance on ownership and property held by foreign capital, and also assurance of repatriation of invested capital and profits generated therefrom; and
- 5) Provisions for tax incentives and any other fiscal incentive privileges to foreign investment.

These provisions must be elaborated in accordance with the deliberation of the issues raised in the subsequent section. Further, if decision is made to set up a Free Zone as proposed in Program 2-3, legislation for the Free Zone including the privileges given to establishments and the requirements to be fulfilled by these establishments should be included in the omnibus legislation for foreign investment promotion.

(2) Improvement of foreign investment conditions

Table 7-1 tabulates foreign investment conditions for industry in the Sultanate of Oman and Dubai, UAE. Difference of major foreign investment conditions in these two nations can be summarized as follows:

- 1) Restriction on business activities by foreign national or entity

These two nations legislate similar restrictions on business activities to be carried out by foreign national or entity, permitting them to conduct business activities only by

means of commercial entities with equity participation of nationals. It is also required that this be registered in the respective nation and also, secure a business license issued by the relevant ministry of the respective government. Foreign ownership in those commercial entities is allowed by the Sultanate to the extent of 65% foreign majority, whereas in UAE, only minority share of up to 49% is allowed, except for special entities operating at Jebel Ali Free Zone. The UAE has a special legislation on business activities located at Jebel Ali Free Zone, which permit 100% foreign ownership by special legal entities named Free Zone Establishments (FZEs) although FZEs' business activities are limited to those inside the Free Zone.

2) Assurance on foreign ownership

The two nations stand on entirely same conditions with regard to the national assurance given to foreign ownership. The government has never taken any intervention on authorized foreign ownership, and also, 100% repatriation of capital and profits is allowed in the absence of foreign exchange control, although there is no legislation explicitly stipulating legal assurance on foreign ownership and repatriation of capital and profits.

3) Tax incentives

There is a substantial difference in taxation between the two nations. In Oman business activities are subject to income tax imposed under the Tax Law, although the entities engaged in industry may be granted tax holiday for initial five years and another five years subject to the sanction by the relevant ministry. As a procedure, however, the tax holiday is granted on a case-to-case basis against application submitted by entities. In UAE., although the decrees covering corporate tax exists, only tax assessment on oil and/or gas producing companies and branches of foreign banks is practiced. FZEs are assured with exemption from corporate tax for 15 years, which may be extended for another 15 years.

The two nations have import duties although there is a slight difference in the rates of duties. In Oman the import duties are generally set at 5% of CIF value, while in UAE. the duties range between 1% and 4% but most commodities are currently charged at 4%.. In Oman, the entities engaged in industry, especially for the manufacturing of products for exports may be granted exemption from import duties to be imposed on imports of machinery and equipment required for production, and also on imports of raw materials and semi-processed goods used for production for the initial five years and subsequent years subject to the sanction by the relevant ministry. However, it is granted on a case-to-case basis against application submitted by entities. In UAE., there is no legislation granting such import duty exemption to the entities operating outside the Free Zone, whereas imports into the Free Zone are duty free and subject to

normal rates of import duty to be imposed on those subsequently resold in UAE.

4) Employment regulations

The two nations have no virtual restriction on employment of expatriates. In Oman, however, the entities engaged in industry are required to contribute costs for the vocational training programs implemented by the government, as well as in conducting training of Omani workers employed. These entities are also required to employ at least 25% Omani workers from its total work force, this being a prerequisite for applying industrial incentives as well as financial support provided by the government.

Comparing foreign investment conditions between Oman and UAE., there are some areas in which improvement would be necessary in order to make the environment more attractive for foreign investors. Enumerated below are focal points upon which deliberation is recommended.

1) Legal assurance on foreign ownership

Foreign investors require legal assurance on foreign ownership, as well as repatriation of invested capital and profits. To meet these requirements, it would be effective to lay down legislation to assure foreign investors with ownership in Oman, and their repatriation of invested capital and profits generated therefrom.

2) Alteration of licensing system

a) Issuance of a single license incorporating an entity for industrial undertaking as well as set-up of industrial establishment with foreign investment

Under the present legislation, foreign investors wishing to carry out industrial undertaking in Oman will have to obtain a licensee for foreign investment, and then a license for industrial undertaking separately, since these two licenses are issued under the two different governing laws, the Foreign Investment and Business Law and the Law for Organization and Encouragement of Industry. These procedures may discourage foreign investors because it involves duplication of project preparation and documentation for applications which often causes delay in project implementation and increases in project costs. It is recommended to examine legislation for issuing a single license authorizing both foreign investment and industrial undertaking. In this case an alternative system is to issue a provisional license in accordance with a simplified application form, prior to the issuance of final license, so that foreign investors can proceed with detailed project feasibility study and project preparation with confidence that the project as well as foreign investment will be approved, provided it meets the conditions as indicated in the provisional

license.

b) Set-up of different status of license

If a single license may be issued for foreign investment and industrial undertaking, it is recommended that such a license be issued in different status for granting tax incentives as discussed in the subsequent section. The status may be classified into the following three:

1. Special license for export industry
2. Special license for pioneer industry
3. Normal license

The special license for export industry shall be issued to industrial establishments which undertake manufacturing, processing and/or packaging of products for exports including re-packing of imported commodities for re-export, provided that those establishments are obliged to export all or overwhelming majority of those products or commodities as indicated in the applicable law. The special license for pioneer industry shall be issued to industrial establishments which are engaged in new import-substitution industry, or any other fields of industry promoted by the government. The normal license shall be issued to industrial establishments which are engaged in industrial undertaking in the field other than the above two. These definitions must be stipulated in details in the applicable law.

c) Issuance of special license for business undertaking inside the Free Zone

Program 2-3 proposes to set up a Free Zone. For implementation of the Free Zone relevant legislation should be laid down, under which another special license should be issued for business undertaking inside the Free Zone.

3) Alteration of systems for granting exemption from income tax and import duties

The Law for Organization and Encouragement of Industry stipulates the provisions for exemptions from income tax and import duties to be granted to the entities engaged in industry as follows:

- a. Exemption from income tax for the initial five years which may be extended for subsequent five years subject to the sanction by MCI
- b. Exemption from import duties imposed on imports of machinery and equipment to be used for production
- c. Exemption from import duties imposed on imports of raw materials and semi-processed goods used for production for the initial five years which may be extended

subject to the sanction by MCI

These incentives are applied to the entities which have industrial license and also employ Omani workers at least 25% of total work force, and MCI sanctions to grant the incentives on a case-to-case basis after the investigation of application submitted by the entities. Hence, entities are unable to make sure in advance that the incentives will be given to them. Foreign investors often desire to ensure the provision of incentives prior to making an investment decision, and therefore, the present system may discourage investment decision by foreign investors. It is recommended to alter the system so that the incentives may be granted to all eligible entities without individual applications. An alternative system for granting incentives is based on the issuance of different status of license as discussed in the previous section. In this event, entities holding special license for export industry may be entitled to import duty free raw materials, and semi-processed goods used for production as well as commodities re-exported with re-packing; provided that import duties should be paid for those re-sold in the domestic markets or used in the products for domestic sales. An example of the incentive granting system is enumerated for deliberation in Table 7-2.

4) Reduction of income tax for entities employing Omani workers by categories

In order to promote the employment of Omani workers, it would be effective to give some reduction of income tax for entities employing Omani workers varying reduction rates by category of workers employed.

Key Success Factors

1. The objective of omnibus legislation for foreign investment promotion is to give potential foreign investors clear understanding on the foreign investment policy and regulations, privileges and incentives, and administrative procedures to be complied. Hence, the legislation should be laid down with precise stipulations as much as possible.
2. Eligibility of entities for issuance of relevant license and incentives to be granted should be clearly defined so that foreign investors can be sure whether they are eligible for such license and/or incentives to be issued or granted.
3. Application procedures for license and/or incentives should be simplified and deregulated as much as possible, and the system for granting incentives should be designed in a manner that all eligible entities can avail them without investigation of individual applications.

Suggestion for Implementation

1. Form a task force team in MCI for drawing a draft of the proposed omnibus legislation for foreign investment promotion.
2. Organize a steering committee with the representatives of relevant ministries for the deliberation of the draft legislation thus drawn by the task force team, prior to the legal deliberation and procedure for promulgation.

Program 2-2: Institutional set-up for promotion of foreign investment

Program Description

(1) Objective of the program

The objective of this program is to set up institutional functions which undertake systematic activities for foreign investment promotion so that foreign investment can be induced for the development of industries in Oman. Foreign investment promotion activities, however, are generally time consuming and costly. For bringing about immediate cost effect, it would be efficient to undertake the initial promotion activities confined to priority industries or projects as well as target countries. The program is designed to undertake such selective promotion activities focused on the development of those industries or projects as envisioned in the industrial development plan.

In Oman, domestic capital will have adequate capacity to finance industrial projects except for huge investment projects which require project finance from abroad, and therefore, the role of foreign investors is to provide the management of ventures as project partners, particularly technical management for operation and marketing of products for exports as well as equity participation. Hence, the objectives of the program are primarily focused on identifying and inducing such foreign partners who are interested in industrial operation in Oman and assist in export marketing of the produced products.

(2) Specific projects/industries and target countries for foreign investment promotion

It is efficient to focus target countries in which intensive promotion activities are carried out to enjoin foreign partners to be involved in specific projects or industries contemplated in the development plan. Hence, the target countries should be selected from among the countries where there are great possibilities to identify those partners.

Specific projects or industries to be promoted with foreign investment, as stated earlier, are those enumerated below:

- 1) Natural gas based chemical projects
 - a) Poly-olefin petrochemical complex project

- b) Ammonia and urea complex project
- c) Chemical methanol project
- 2) Mineral based projects
 - a) Gypsum export project
 - b) Gypsum board/ gypsum fiber board industry
- 3) Export industries based on locational advantages
 - a) Food processing industry for exports
 - b) Agro-products re-packing industry for re-export
 - c) Knitwear industry for exports
 - d) Medicines re-packing industry for regional distribution and re-export

The three natural gas-based chemical projects enumerated above are large complex projects which produce a large quantity of products for exports, and which require huge investments and strong management and marketing capabilities. Hence for these projects, it is essential to establish joint venture with experienced foreign partners who will organize project finance and assume overall responsibility for project preparation and implementation, technical management for operation and export marketing of products. The poly-olefin petrochemical complex project and chemical methanol project will be dependent on exports to international markets, the major ones being EC and Japan. Joint ventures with existing petrochemical or chemical manufacturers in EC or Japan who have international marketing networks would be best suited for successful development. Hence for these two projects, EC and Japan should be the target countries for foreign investment promotion. The ammonia and urea complex project will be developed for export to India since it is a large importer as well as large producer of urea fertilizer, and therefore the partnership should be sought from existing fertilizer manufacturers in India.

The gypsum export project is envisaged to develop the export of gypsum in bulk, so a key for successful development should be tie-up with importers in captive market. Japan is one of large gypsum importers, and hence Japan should be the target country in seeking a foreign partner of the project. As the gypsum board/ gypsum fiber board industry is new in Oman, the development of this industry would require foreign partners who have experiences in production with appropriate manufacturing technologies, and also in market development and exports. Potential partners could be sought in EC, especially UK and Germany, since this industry has been established in those countries.

The third category of industry enumerated above include a variety of export industry that can be established based on the Oman's locational advantages. These include

export-oriented food processing industry, agro-products re-packing industry for re-export, knitwear industry for exports and medicines re-packing industry for regional distribution and re-export. As discussed in the development strategy, there are two factors from which the Oman's locational advantages may be explored. One is through cost advantage in sea transport for Southeast Asia and East Asian regions by enjoying freight discounts offered for return containers to those regions due to excessive inflow of cargoes from the former regions to the Mid-east. Another advantage is the possible adoption of sophisticated technologies and machines at economic costs due to free import regulation and low financial costs available. These advantages could attract food processors or agro-products exporters in India to locate their bases for food processing or re-packing of agro-products for exports, so that they can bring raw materials or processed products in bulk to convert into final products; and/or re-pack by using sophisticated machines with export grade high quality packages. Operations are costly in India due to high duties imposed on imports of sophisticated machines and high quality packaging material requirements not available from indigenous sources, and also high costs for local finance in India. At the same time these could also attract potential investors in Taiwan, Hong Kong and Singapore, for they can enjoy similar benefits for exports to Southeast Asian and East Asian regions.

From the foregoing points of view, the target countries for foreign investment promotion should be primarily focused on India, Taiwan, Hong Kong, Singapore, Japan, and EC, especially UK and Germany. Table 7-3 enumerates specific projects or industries to be promoted for foreign investment and types of potential investors to be earmarked in these countries. Nevertheless, these target countries as well as specific projects/industries indicate initial targets for the promotion, which must be reviewed for further expansion or alteration of the proposed activities including the target countries and industrial fields depending on the results of initial promotion activities, and also additional fields of industries identified for the foreign investment promotion.

(3) Organizational structure, main functions and role for the promotion activities

In order to carry out intensive promotion activities for inducing foreign investment in the priority projects/industries from the target countries as discussed above, it is proposed to strengthen the organizational structure which undertakes special tasks for those promotion activities.

The organizational structure is composed of: (1) the central units for the promotion activities, (2) promotion service units in Oman, and (3) promotion units in the target countries. The main functions and role of the respective unit will be as follows:

1) Central unit for the promotion activities

This unit is the headquarters for the foreign investment promotion activities, which will have to undertake the following functions:

- a) Design and decision of specific action programs for foreign investment promotion activities to be carried out annually in the industrial sector, and preparation of funds required for the activities.
- b) Monitoring of the progress and review of the action programs
- c) Instructions, supervision and coordination on the promotion activities carried out at the promotion units in Oman and the target countries.
- d) Coordination with relevant ministries and other government agencies concerning promotion activities, and liaison and coordination with foreign agencies located in Oman.
- e) Collection, accumulation and updating of data and information required for the promotion activities.
- f) Preparation of written information and data base to be used for the promotion activities.
- g) Response to inquiries from the promotion units concerning policy matters
- h) Arrangements for dispatching official missions to investment seminars or other conventions for foreign investment promotion abroad.
- i) Support activities to the promotion units other than the above.

2) Promotion service units in Oman

Besides the central unit, the set-up of promotion service units in Oman may be useful. These service units will be engaged in the provision of various promotion services under the instructions and supervision from the central unit. The main functions to be carried out at these service units are as follows:

- a) Sponsorship for potential foreign investors who will visit Oman as a group or as individual with an interest of industrial undertaking in Oman.
- b) Assistance for Omani nationals to visit foreign countries as a group or individual to identify foreign partners for their projects.
- c) Provision of appropriate information and guidance to those potential foreign investors visiting Oman.
- d) Introduction of counterpart industrial communities or enterprises as required by those foreign visitors for their preliminary contact to identify local partners.
- e) Introduction and arrangements to relevant public agencies or professional institutions as required by those foreign visitors for collection of data and information, field surveys or any other activities for project feasibility studies and

preparation.

- f) One-spot services for assisting foreign investors in preparing and submitting necessary applications to several government authorities related to the foreign investment, business set-up and factory construction.
- g) Any other services as may be required by potential foreign investors visiting Oman.

3) Promotion units in the target countries

The role of the promotion units set up in the target countries is to undertake promotion activities in the respective country, which will include the following functions:

- a) General introduction to potential investors with a presentation of industrial profile, industrial investments opportunities and investment environment/conditions in Oman by means of advertisement in mass media and investment seminars.
- b) Identification of potential investors through responses to advertisement, seminars, questionnaire surveys, etc.
- c) Provision of written information or any other follow-up services to thus identified potential investors.
- d) Set-up of window service networks (viz., public agencies, banks and business associations, etc.) which will undertake the distribution of written information prepared, introduction of potential investors and any other window services to those interests.
- e) Monitoring of subsequent actions by those identified concerns with frequent contact, and continuous services to them as required.

(4) Organizational set-up

In light of the foregoing functions, the following factors should be taken into account for organizational set-up of the relevant units.

1) Central unit

The central unit should be set up in the Ministry of Commerce and Industry for it is the core of the foreign investment promotion related to the industrial development in Oman, and it should function as one of the policy instruments for the industrial development.

2) Promotion service units in Oman

While the central unit may carry out the function of the promotion service unit as enumerated above, an alternative is to set up these units under the Chamber of

Commerce and Industry of Oman, Industrial Estate Authority and any other pertinent institutions under the control and supervision of the central unit.

3) Promotion units in the target countries

For the top priority countries it would be best to set up an independent promotion office where a promotion officer and local assistants are stationed. Especially in India it would be more efficient to carry out the promotion activities confined to some selected states (viz., Tamil Nadu, Kerala, Karnataka and Maharashtra), so the promotion office should be located somewhere in the center of those selected states. In other countries these units could be set up in the Embassy of the Sultanate of Oman, in which a commercial attache can concurrently carry out the promotion activities with the assistance of support officers dispatched from the control unit temporarily as required.

Key Success Factors

1. Success for the foreign investment promotion is derived from systematic activities, which comprise:
 - (1) Publicizing activities to introduce investment opportunities in the industrial sector of Oman widely to foreign industrial communities and to identify potential foreign investors;
 - (2) Follow-up and conduct infusion activities to identified potential investors maintaining a continuous contact and, providing information on other services as required for their pre-investment studies and decision-making on investment;
 - (3) Information activities to prepare, accumulate and update data and information needed for the publicizing activities, follow-up and infusion activities;
 - (4) Consulting services for business set-up by those investors, including application for any legislative and administrative procedures; and
 - (5) Monitoring activities to monitor the progress of foreign investment, assess the effect of the foreign investment promotion activities and review the action programs for any intensification and alteration.
2. For the identification of potential investors, it would be efficient to have different approaches respectively (a) for specific large-scale projects such as petrochemicals, urea fertilizer, chemical methanol and gypsum and (b) for wider fields of industries such as, food processing and re-packing of agro-products and medicines for re-exports. Whereas the identification of potential investors for specific large projects could be worked out through individual contacts with leading manufacturers and relevant business concerns, the publicizing activities such as publicity in newspaper

and other mass-media, investment seminars, questionnaire surveys and any other systematic approaches would be required in order to identify potential investors for wider fields of industries as mentioned above. For the latter activities, it is important to prepare publicity materials to arouse interest in Oman's industry from industrial communities abroad, which include general information on the country, investment environment and conditions, profile of selected industries, and industrial investment opportunities and prospective benefits offered.

3. The provision of data and information as needed by potential investors for their pre-investment studies and project preparation is an important instrument for promotion. To this end, it is vital to set up a data base for responding to their requirements in time. While scrutinizing items and depth of data and information really needed, reference may be made from feedbacks among continuous contacts with potential investors.
4. Another importance is to provide thoughtful services to potential investors visiting Oman. Hence it is crucial to set up service networks providing such services in Oman.
5. In order to work out the promotion activities in the target countries abroad, it is essential to tie up with pertinent counterpart institutions in the target countries. It would be efficient to carry out the promotion activities focusing on certain regions and industrial communities in those target countries. Hence, the counterpart institutions must be carefully selected in carrying out the activities intensively on the said focused regions and industrial communities.

Suggestion for Implementation

1. Organizational set-up
 - (1) Lead agency: MCI
 - (2) Support role: RIEA, OCCI, Embassies abroad
 - (3) As for the promotion offices abroad, it is recommended to have a promotion office only in the top priority countries including India, while other target countries could be covered with assistance of commercial attache of embassies.
2. Implementation step
 - (1) Form a "Special Foreign Investment Promotion Task Force" to carry out the implementation planning including budgetary preparation.
 - (2) Establish the central unit, promotion service units in Oman, and promotion units in the target countries abroad with assistance of the Embassy.

- (3) Establish the tie-up with counterpart institutions in the target countries.
- (4) Undertake the promotion activities in each unit according to the implementation programs prepared.

Program 2-3: Promoting the set-up of Free Zone

Program Description

(1) Objective of the Free Zone

The proposed industrial development strategy calls for the promotion of manufacturing industry for exports and re-packing industry for re-export which could foster the development of packaging industry as well as packaging materials manufacturing industry in Oman.

These industries involve external trade business for the import of materials and semi-processed products for final processing, goods to be packed for re-export, and the export of the thus processed and/or packed goods, and therefore this industry would require assurance of free operation of those import/export business duty free. At the same time, many of foreign operators being interested in such operation in Oman may prefer undertaking with full ownership since those undertakings should be a part of their overseas operation.

The Foreign Investment and Business Law limits the maximum ownership of non-Omani capital up to 65%, and also prohibits the undertaking of trade and service by non-Omani capital. Although the Law for Organization and Encouragement of Industry provides for tax incentives to be granted to industrial establishments satisfying certain conditions which include exemption from import duty on imports of machinery, equipment and spare-parts used for production and also on imports of raw materials and semi-processed inputs required for production for the first five years of operation extended subject to sanctions by the Ministry of Commerce and Industry, these provisions seem insufficient to attract foreign investors to set up their operation bases for export processing or re-packing for re-export in Oman.

For the promotion of foreign investment particularly for the development of export processing industry and re-packing industry for re-export in Oman, it would be effective to set up a Free Zone in Oman similar to Jebel Ali Free Zone at Dubai, UAE., which functions as a business enclave facilitating free trade and industrial operation by foreign capital.

(2) Basic concept and framework of Free Zone to be set up

This program aims to promote the set-up of a Free Zone in Oman as a means for

foreign investment promotion. The basic concept and framework of the Free Zone to be set up in Oman are enumerated below:

1) Development concept

The basic concept of the Free Zone is to create a special zone which accommodates entities or establishments engaged in manufacturing of products for exports, re-packing of imported commodities for re-export, or relevant trade or services. The Free Zone should be developed within a boundary separating it from industrial estates or other industrial or business zones, and should be well established with adequate industrial/business infrastructure, common service facilities and residential facilities for managers and workers.

2) Entities/establishments to be located in the Free Zone

Entities or establishments to be located in the Free Zone are those incorporated with foreign and/or domestic capital to undertake (a) the manufacturing, processing and/or packaging of products mainly for exports, (b) re-packing of imported commodities for re-export, (c) offshore trades or (d) relevant trade and services.

3) Location of the site

The Free Zone should be located in proximity to the commercial port as well as existing industrial center. One of feasible sites may be the vicinity of Rusayl Industrial Estate.

4) Facilities to be developed

Facilities to be developed in the Free Zone are enumerated below.

- a) Land for office and factory buildings for individual establishments
- b) Standard buildings to be leased as offices by some locators
- c) Administration office for the authority of Free Zone
- d) Common service facilities
 - i) Exhibition and convention rooms
 - ii) Banks and a post office
 - iii) Custom office
 - iv) Common warehouses
- v) Centralized container yard including container loading/unloading facilities, which enable locators to handle containers and custom clearance directly inside the Zone.

- e) Infrastructure
 - i) Internal roads and access roads
 - ii) Electricity supply system
 - iii) Water supply system
 - iv) Fuel supply system
 - v) Telecommunication system
 - vi) Sewage, drainage and waste water treatment and disposal system
 - vii) Solid disposal system
 - f) Residential facilities
- 5) Services to be provided
- a) Supporting services by the Free Zone Authority office for locators to comply with the government's administrative procedures
 - b) Custom clearance
 - c) Banking, insurance and postal services
 - d) First aid and clinic services
 - e) Forwarding and shipping arrangements by appointed forwarders and shipping agencies having offices in the Free Zone
 - f) Inspection services by internationally authorized inspection institutions
 - g) Maintenance and repair services by appointed contractors
- 6) Privileges to be granted to establishments in the Free Zone
- a) Permit to establish 100% foreign-owned entities as special legal entities named Free Zone Entities (FZEs); provided that FZEs inside the Free Zone be restricted to undertake business activities such as, the manufacturing of products solely for exports, re-packing of imported commodities solely for re-export, or offshore trades.
 - b) Exemption from income tax for FZEs for a certain period, and reduction of income tax varying the scale of net export earnings, employment of Omani workers and utilization of local made products. (This provision may also be applied to entities holding special license for export industry.)
 - c) Duty free importation into the Free Zone, with import duties imposed only to those resold in Oman or used for production for domestic sales.
 - d) Establishments set up in the Free Zone by entities holding other licenses are treated as those established outside the Zone.
- 7) Form of development and management of Free Zone
- There are two alternatives for the development of the Free Zone. One is to develop

it with public finance, and another way is to develop it with joint venture between the Omani public authority and foreign private investors. For the management of the Zone, the public authority should take initiative for the overall management, particularly as regards to public administration related to business activities by entities established in the Zone, while some service components can be commissioned to private entities.

Key Success Factors

1. The objective of setting up the proposed Free Zone is to function as instruments for attracting foreign investors. Facilities and services as well as privileges to be provided should be thoroughly examined to make it more attractive ,to enable it to compete with Jebel Ali Free Zone and other similar facilities in GCC.
2. Convenience for shipping, adequate supply of electricity and water, and well established telecommunication services are crucial for the Free Zone. It is essential to ensure these supports prior to the implementation of Free Zone.
3. The function of the Free Zone should be designed so as to have close linkages with existing industrial estates and existing industries in Oman.

Suggestion for Implementation

1. Conduct a feasibility study for the development of Free Zone.
2. Once the implementation of Free Zone is decided, form a task force for the project management.
3. Form the Free Zone Authority for the overall management of the Zone and public administration related to the business activities of entities established in the Zone.

7.3 Intensifying financing programs/schemes for industrial development

Introduction

The industrial development program requires a large amount of investment with domestic investment by the private sector in Oman as well as foreign investment from abroad. For successful achievement of the industrial investment envisaged in the development program, it is vital that the financing sources be able to provide adequate funds to cater to investment demands.

Further, the development of export-oriented small and medium-scale light processing industries will be intensively promoted in the development program. These industries need relatively large amounts of working funds required for the importation of raw materials or semi-processed goods as well as export credit, for which they require easy access to short-term loans available at possible low financing costs. Foreign investors will likewise have to seek such access. Thus, it is crucial to intensify short-term financing programs in encouraging those export industries.

In Oman there are two financing sources which have provided medium and long-term loans for industrial development in the private sector. These are the financing schemes provided by Oman Development Bank SAOG (ODB), and the government soft loan scheme managed by the Ministry of Commerce and Industry.

Oman Development Bank SAGO (ODB)

ODB is a state-owned bank established in 1976 which provides assistance in realizing development projects in Oman by granting loans, participating in the share capital, and providing technical assistance to companies registered under the Commercial Companies Law and to carry out other banking services. Profile of ODB's main activities is enumerated in Table 7-4. ODB provides medium- and long-term loans and equity participation mainly to private sector projects in industry, agriculture, petroleum, mining, fisheries, services and other economic sector related to development. Since its commencement of activities in 1979 and up to the end of 1992, ODB has financed about 290 industrial projects amounting to RO. 59.0 million loans, for total project cost of RO. 166.0 million. Besides the ordinary project financing, ODB has recently started a financing scheme for small-scale industries which finances projects below RO. 100,000; a financing scheme for vocational training graduates which finance them in setting up their own units; and a professional financing scheme to help graduates or any equivalent degree holders setting up their professional units. Table 7-5 shows the breakdown of ODB finance to industry by sub-sectors. Further ODB has started export finance by setting-up the Export Guarantee and Finance Unit in 1991.

Government Soft Loan

The government has set up a government soft loan scheme to provide financial support for the private sector in the fields of industry and tourism under Royal Decree 48/87 promulgated in 1987. This loan is disbursed by ODB interest free with loan approval sanctioned by the Ministry of Commerce and Industry. Total of the Government Soft Loan sanctioned up to the end of 1992 amounts RO. 16.6 million for 68 projects.

These are medium- and long-term loans to finance investment for industrial projects. Short-term loans to finance working funds are provided by commercial banks. There are 21 commercial banks operating in Oman, among which 10 are locally incorporated while the other 11 are branches of foreign banks.

When the domestic and foreign investment is promoted as envisioned in the proposed industrial development plan, the demands for medium and long-term loans will substantially increase along with increases in number of projects, as well as project costs much larger than those financed until the present. At the same time, the requirements for short-term loans to finance working funds will increase with expansion of industrial undertakings, particularly those for exports. The following recommends to review the present financing programs/schemes with a view of intensifying them to meet the increasing financing requirements as stated above.

Recommendation

(1) Intensification of financing functions to finance large industrial projects

The proposed industrial development plan, as discussed earlier, envisages to promote large industrial projects such as petrochemical and gas-based chemical projects. These projects require large investment in the order of RO.150 to 200 million respectively, amounting RO.500 to 600 million in total. Assuming 30 to 35% of total investment may be financed with equity capital, the project sponsors would seek project finance from financing institutions in the order of RO.100 to 140 million for the respective project, thus totaling in the amount of RO.300 to 400 million at least. As these projects will be developed on the basis of joint-venture with foreign investors, those foreign investors would arrange finance for foreign exchange expenditures including those for equipment and machinery imported as well as services by foreign contractors, either by means of project finance or export credit provided by foreign banks. However, these finance will require underwriting or guarantee by Omani banks. In addition, local costs normally accounting for 20 to 30% of total financing requirements should be

financed by local banks in Oman. These financing requirements are estimated to be about RO.30 to 40 million for the respective project, amounting RO.100 to 120 million.

Under the present banking system in Oman, ODB would be the main financing institution for these projects. ODB, however, has not practiced financing such large amount of loans nor has experienced in underwriting and guarantee for foreign finance, although it is authorized to undertake such activities. This occurred since such large projects have not been implemented in Oman except for only a few public sector projects such as the oil refinery and cement factory which have been developed with public finance. Further, the financing requirements anticipated for the foregoing projects far exceed the ODB's current lending capacity.

In order to promote the proposed large investment projects, it is recommended to take immediate actions in intensifying ODB's financing capacities to finance those projects.

(2) Expansion of financing functions for medium-scale projects

Besides the financing requirements for large investment projects discussed above, the financing requirements for medium-scale projects will also increase with increases in number of projects as well as a size of project costs for individual projects. The envisaged projects require average project costs in the order of RO.1.0 to 1.5 million for the each respective project, totaling to RO. 300 to 400 million for 250 to 300 projects to be established in the next five years. Even though some of these projects will be realized on the basis of joint-venture with foreign investors, domestic finance would be needed for them since majority of foreign partners for those medium-scale projects may be weak in financial capacity and also have limited access to foreign financing institutions.

The ODB's present operating policy limits the loans or guarantees advanced to one project to the extent that does not exceed 100% of the paid-up capital of the company or establishment and its reserves, or 10% of the total resources of the bank whichever is lower. In the case of Government Soft Loan, the maximum ceiling of the loan provided for the individual projects is up to 100% of the paid-up capital for those located in Muscat and 125% for those outside Muscat, but not more than RO.250,000 except for public share holding companies. These lending conditions compel investors to seek finance with equity capital or loans from other financing sources up to 50% of project costs, which may cause constraint in financial arrangements by investors.

In order to cope with investors' requirements as well as increasing investment demands, it is recommended to take immediate actions in intensifying the ODB's project finance scheme and the Government Soft Loan scheme. Main issues to be reviewed will

be as follows:

1) Lending limit on projects

For medium-scale projects foreign investors are used to seek finance through loans to the extent of 65 to 70% of project costs, while financing the remaining 30 to 35% with equity capital. In order to meet these financing requirements, it is recommended to examine possibilities of expanding the maximum limit of medium and long-term loans provided for individual projects.

2) Fund raising to meet increasing financing demands

The main fund resources for finance by ODB including the Government Soft Loan are government loans in addition to its capital. Assuming RO. 40 to 50 million of loans may be required annually, the funds available for the ODB's financing seem inadequate to meet increasing financing requirements foreseen for the next five years, and therefore it is recommended to investigate possible means for raising funds to meet increasing financing demands.

3) Interest structure

The ODB's project loan is provided at the interest rate ranging 3% and 6% depending on the location of projects, with a subsidy provided by the government although the actual rate of interest is currently at 9%. For the Government Soft Loan, ODB's financing costs are fully compensated with the government subsidy to make the loan free of interest. The applicable interest structure should be reviewed with a view of maintaining possible low interest rates by taking into account possible maximum extent of government budget to be provided as interest subsidy, as well as financing costs if other sources of funds are raised, while seeking to maintain the present interest rates, since this is one of favorable factors encouraging foreign investment.

4) Organizational structure for lending the industrial project loans

For intensifying financing functions to meet increasing financing requirements, one of critical issues is to intensify the organizational structure for efficiently lending the industrial project loans, particularly in shortening the time for project appraisal and loan processing. An alternative way is to transfer the appraisal and loan sanction for the Government Soft Loan to ODB by combining its project loan scheme and Government Soft Loan scheme.

(3) Pre-shipment export finance

The ODB Export Guarantee and Finance Unit operates export guarantee finance scheme. It issues guarantee to the Omani exporters, giving them security with regard to the returns from their export sales. These guarantees cover risks of non-payment or

suspension of payments by importers for commercial, economic or political reasons. This system also provides exporting companies with a financing subsidy enabling them to reduce their export costs. The subsidy is granted for export loans provided by commercial banks, incorporating 5% subtracted from the commercial costs of borrowing and applied through the entire period of the export financing, which include pre-shipment and post-shipment finance.

This scheme substantially encourages the promotion of export industries. However, the commercial banks limit the provision of pre-shipment export finance to exporters due to borrowers' limited financial capacity.

Many of manufacturers engaged in processing imported materials for exports like export garment manufacturers require relatively large amount of working capital for importing materials, requiring them to procure those materials after receiving order from buyers. It would be contributed to exporters if pre-shipment export finance is expanded by giving guarantees to them in discounting the Letter of Credit opened by importers or promissory notes issued by export agents. This way, exporters can issue the Letter of Credit for the import of required materials with minimal working funds.

Suggestion for Implementation

1. Form a joint study committee by MCI and ODB to study the foregoing aspects for necessary actions.
2. Take appropriate actions based on the thus prepared action plans.

7.4 Human Resource Development

Introduction

Historically, most of human resources required for industrial development of Oman, including engineers, technicians, and managers, have relied on external resources, specifically, expatriate employees. As the present labor regulations provide no restriction on employment of foreign workers and since neighboring Southwest Asian countries have abundant excess labor supply capacities, Omani industries will have no difficulty in employment of expatriate workers. Also from the moderate pace of industrial development, any immediate strain or pressure is unlikely to arise in the country's labor market in the immediate future.

On the other hand, however, little progress has been made in developing indigenous human resources required for the industrialization process. In particular, local industries do not have ability to nurture industrial work forces by themselves.

The task for developing human resources in Oman is derived from the need of nurturing Omani industrial manpower who can lead industrial development, and also lead in the training of Omani nationals who are unable to get jobs due to lack of industrial skills. This situation is entirely different from the human resource development requirements in industrialized countries or newly industrializing countries where it is based more on supplying labor, upgrading its quality to meet the demands of the industries.

The government has given high priority to the upgrading of education system which provides the basis for human resource development, and it has achieved substantial progress in recent years. The government expenditures for education surged from 1.8% of total in 1975/76 to 5.1% in 1985/86, and then to 7.3% in 1992/93¹⁾. Literacy rate of 6 years or older was recorded at 52% in 1992.

The public education system in Oman consists of 6 years in primary school (completed at the age between 12 – 14 years), 3 years in preparatory school (completed at the age between 15 – 17 years), and 3 years in secondary school or technical school comprising commercial, agricultural and industrial fields. As for post-secondary education, there is one university, Sultan Qaboos University, and other technical colleges. Also, many people study at foreign universities and colleges. Educational costs, including those for studying in overseas university, are borne by the government.

¹⁾ According to ADB report "Key Indicators of Developing Asia and Pacific" countries", educational expenditure in Asean countries was 15-18% except 12.7% of Indonesia and 21.1% of Thailand. (1990)

In addition, the Ministry of Labor and Vocational Training operates a vocational training system. It was started as a corporate training institute of Petroleum Development of Oman (PDO), which was transferred to government control. It has been expanded to an extensive training system consisting of 9 secondary vocational training institutes to train graduates from preparatory schools. As it is unable to meet current needs, restructuring has been done and thus a new system started in September, 1994. Under the new system, 4 out of 9 existing vocational training institutes (Seeb, Ibri, Saham, and Sur) are converted to technical training centers, and remaining 5 (Darsait, Salalah, Ibra, Musanha, and Nizwa) to technical colleges²⁾.

The vocational training centers provide trainings for trainees aged 15 years or older regardless of educational background, which consist of a 6-month fundamental course including field training, and advanced courses in subsequent 2 years. Graduates from the fundamental course are allowed to take job and have work experience before entering the advanced course. Major fields of training are automobile, construction, wood-working, machining and electronics, and curriculums are prepared for trainees who have completed primary education.

The technical colleges, on the other hand, offer 3-year programs³⁾ for graduates from general or technical secondary schools to train technicians in the fields of electrical engineering and electronics, mechanical engineering (automobiles, machine tools, air-conditioning, and refrigeration), civil engineering (architecture and land surveying), laboratory science (school laboratory, physics, chemistry, biology), computer science, and business (management, accounting, secretary, marketing, health). All the courses are provided in English. In addition, the government provides financial assistance for qualified corporate education and training programs to cover a certain part of training cost and trainee's salary.

The government currently undertakes intensification of vocational training as well as upgrading of the educational system. Nevertheless, these efforts have not resulted in significant advancement of the human resource development until the present.

Employment of new graduates in the private sector is still limited. For instance, 75% of graduates from those technical colleges are employed by the government sector including military service, thus those working in the private sector account for small portions. Also, many graduates engaged in private companies often resign within a short period of time to get jobs in the government sector. Given the decrease in employment opportunity offered by the government sector and the increase in youth population,

²⁾ There had been another technical college in Muscat before the new system started.

³⁾ It was 2 years-programs before the 3 years-programs started from September '94.

developing employment opportunities in the private sector becomes a more important issue in the immediate future.

The current problem related to the country's labor market is not attributable to the educational and vocational training system. It should be noted that the issue related to education and training of workers required by the manufacturing sector is somewhat different from that seen in other developing countries. The critical issue on the vocational training system is represented by very limited job opportunities for graduates offered by the manufacturing sector. It is due to their technical capabilities and skills being far below the level required by the manufacturing sector, rather than just virtual deficiency of employment opportunities offered by the manufacturing sector. It should be noted, however, that the private sector seems to expect too much from new graduates, notwithstanding the problems related to the training system. As mentioned earlier, Oman has abundant supply of expatriate engineers and technicians, so that employers prefer to use expatriate workers who are readily capable to carry out jobs efficiently with higher productivity despite higher salary or wages paid. For the graduate side, on the other hand, the private sector is less attractive than the government sector, since the former offers lower salary not to mention other unfavorable conditions.

The vocational training institutes provide training which are comparable to those in other countries. Hence, any immediate improvement in the present training system is not necessarily required.

In the future, along with the deepening and diversification of industries, curricula for the training can be focused on specific areas really needed by the industries, while trainers can build up their practical capabilities, so that the vocational training can nurture industrial work forces who have technical capabilities and skills to meet the requirement by the industries. In this regard, efforts to increase participation of those graduates in the private sector is essential, since their lessons can serve to provide as the basis for pursuing the foregoing institutional build-up.

Another issue on human resource development in Oman is represented by lack of indigenous engineers, technicians and managers who should be the nucleus for leading the industrial development. As mentioned earlier, these staff in the private sector are mostly filled by expatriate workers. Local business owners are rarely involved in management, which is handled instead by expatriate managers. This situation makes it difficult for the industries to play as seeds for future industrial development. As discussed in the industrial development strategy and scenario, the intensive promotion of foreign investment for new industrial undertakings and the development of large-scale industrial projects will accelerate the future industrial development. Nevertheless, the sustainable growth could

not be achieved only with these developments. The existing industries should also grow and diversify in its present operation to link to the foregoing development, for which the managers and other key staff engaged play an important role in identifying the seeds, and establish commercial undertakings based on the thus identified seeds.

In practice, however, most of employed expatriates stay in the Sultanate for a short term of two to five years, before they are replaced by their successors. This has led to poor accumulation of business and technological experience in the country. The resultant deficiency of key personnel who can identify the seeds for business development may hinder the diversification and growth of SMIs, and the development of linkage or supporting industries.

Although the human resource development is the vital task, the improvement/upgrading of the existing education/training system does not seem to be an effective measure for the intended human resource development. The existing system itself is well organized under the current situation of demand for the training of engineers/technicians or managers. More practical training can be provided only through OJT, prepared by industrial undertakings to meet specific jobs, or a similar type of organized field training under practical working conditions. The government has been taking several measures to encourage employment of indigenous workers in the private sector, in addition to the public sector. Despite this government efforts, the private sector has failed to develop human resources, such as engineers, technicians and managers, who can lead future industrial growth, whereas some results are seen in the public sector.

Major impending problem in human resource development in the private sector is lack of adequate demand for engineers/technicians and managers in the industry; the jobs are available, but these positions are usually occupied by expatriates ready to work on that position. Local Omani skills of to-be-technicians/engineers or managers are still insufficient to take over the position. They need further on-the-job training (OJT). Management prefer to employ the readily workable technicians/engineers or managers. Omani to-be-technicians/engineers or managers, on the other hand, do not feel comfortable at their work place without their senior giving adequate instruction. Further, their work place is full of foreign workers, and they feel isolated from their society when they are in the work place.

The following two programs are proposed to help develop necessary human resource, one for engineers and technicians, and another for managers.

Program 4-1: Long-term technical skill acquisition program

Program Description

(1) Contents of the program

At present, private companies prefer to employ expatriate engineers and technicians who can perform work without special training. In addition, companies who employ Omani workers are not ready to provide OJT for new employees since expatriate staff do not have time to give trainings. As a result, Omani workers employed without job experience are left out in line operation.

The key for the human resource development, particularly of technicians/engineers, will depend on the method of introduction by the first generation of technicians/engineers to the work place. Once the first generation can successfully be in the work place, the second generation can receive an adequate instruction from them, and they can be trained.

The proposed program will provide a long-term on-the-job training in public-implemented projects or abroad, and churn out ready-to-work technicians/engineers before they perform their jobs. The measures to achieve this are as follows:

- 1) Send trainees to public-implemented projects, or abroad for on-the-job training in the actual work place with scholarship for trainees during the training period
- 2) For public-implemented projects;
 - a) The government makes the public-implemented projects with the obligation of undertaking training of a certain number of Omani trainees for two to three years for each.
 - b) The costs for employing trainees will include additional costs for undertaking the training to be subsidized by the government
- 3) For sending trainees abroad;
 - a) Tie up with regional industrial communities/associations in industrialized countries
 - b) Request to receive trainees for long-term training (at least 2 years, but depending on the required period for mastery) in their actual work place

(2) Main fields of the trainings

Such trainings should focus on: (1) industrial fields which have great possibilities to grow as linkage or supporting industries or small-scale export industries, and (2) those upon which transfer of technologies cannot be gained adequately through just acquisition of production equipment. In particular, these fields should be considered for the overseas trainings.

In view of the priority industries for development and their possible effects to induce the development opportunities for new undertakings, training in the following areas are recommended:

Short- and medium-term

- 1) Food processing
- 2) Manufacturing of packaging materials

Medium- and long-term

- 1) Metalworking
- 2) Plastics processing
- 3) Ceramics
- 4) Computer and information technology

Key Success Factor

- (1) Need for initiative by the government

In Oman, the private sector does not have urgent need for the human resource development, as they can use expatriate engineers and managers to meet immediate requirements. However, development of the human resources is essential from the context of long term national economic strategy. Under this situation, the development of human resources cannot rely solely on the private sector. The government should intensively undertake the human resource development with its initiative.

The human resource development basically should respond to actual needs and therefore, any program for human resource development should be prepared so as to meet specific demands. Thus, the proposed program will be effective only when many job opportunities become available with advancement of industrialization in the country; otherwise, the trained personnel will not obtain jobs to show results of their training on, rendering training fruitless.. Nevertheless, the situation peculiar to Oman requires a different program approach.

This program aims to develop human resources who have specific competence to meet the requirement for certain fields of industries, by means of intensively carrying out special training with the government initiative rather than just leaving it to the market mechanism, to cope with the particular conditions observed in Oman. This may involve a certain risk that can result to misallocation of human resources due to limited job opportunities offered for those trained personnel. Nevertheless, the government should undertake the development program under its leadership, notwithstanding the cost of such a risk, because it requires a long time for achieving its objective.

(2) Appropriate manner for providing subsidy

The government encourages companies to employ Omani workers as trainees by providing subsidy to those companies. However, this system has hardly brought about successful results since most of those private companies have never conducted adequate training. Under this situation, the present system of providing subsidy to all applicable companies seems less effective. Instead, this program proposes selective and systematic provision of subsidy in the form of scholarship.

(3) Treatment of engineers and technicians

In any country where availability of engineers is limited, the demand for engineers currently far exceeds the supply, employers tend to offer them with excessively favorable conditions, compromising their discipline. In fact, many engineers prefer to perform only desk work staying in office rather than field supervision. However, technological improvement is attained in every effort paid in watching and improving field operations all the time. For this reason, it is important to put fresh engineers for OJT in workplace where engineers are assigned to carry out their duty in the production field, and also train them in field-oriented practice and discipline, even if it costs paying higher salary to some extent.

The same policy should apply to technicians. In Oman qualification of technicians is often overestimated, and hence many graduates from vocational training institutes are over confident with their capabilities. The provision of qualification is an effective tool to encourage trainees in studying, but if qualification is granted without paying regard to applicability, it may mislead them into neglecting acquisition of field practice.

Alternatives

(1) Overseas trainings

Generally, training courses prepared by various institutes abroad do not involve long duration of field training at workplace. Since engineers and technicians in Oman are expected to assume their post without initial training, the contemplated training program should emphasize accumulation of field experience under different settings, rather than passive training under the controlled environment. Thus, the overseas training should be conducted not only by participating in such training courses, but also arranging special OJT type training at factories.

(2) Training system by OJT

Even if the existing vocational training institutes are upgraded, it is very difficult to train students to acquire technologies and skills equivalent to those held by expatriate

engineers and technicians. First of all, Oman does not have sufficient accumulation of industrial experience to produce teachers who have vast expertise and experience in field practice of industries. Even if such experienced teachers are employed (in this case, expatriates), there still is a limit in the scope of training provided at the vocational training institutes. OJT is indispensable for acquiring practical capabilities to deal with a variety of problems encountered in production field.

Suggestion for Implementation

(1) Organizational set-up

1. Lead agency: Ministry of Labor & Vocational Training
2. Support roles: MCI, OCCI, Government-operated projects
3. Form the management committee for the program with representatives of relevant ministries and institutes
4. Set a guideline for government-operated projects to employ the prescribed number of Omani workers. After a certain period of time, each employee has option to work for the project or seek for other opportunities. Note that the employee, who choose to work for the project, must meet qualification set by the project, thus, it is not obliged to continue employment of an unqualified person.
5. The executing agency of this program periodically recruit candidates for overseas training, arrange their training abroad, and assist their job-getting after completion of the overseas training.

(2) Relationship with the existing program

Since the subsidy program for companies receiving trainees does not produce much result, it should be replaced with the new program once it is ready for implementation.

In practice, however, it should take a fairly long period of time to conduct all training with the new program, so that the existing program should be phased out in the course of step-wise transition to the new program.

On the other hand, the existing vocational training institutes should provide basic training for the trainees to whom special training shall be provided under the new program. Hence, the training at the existing institutes should be continued with further improvement and upgrading.

(3) Implementation steps

1) Set-up of the management committee

The first step is the set-up of the program management committee, which will identify sponsoring companies in Oman and abroad. Also, it will set up a network with

industrial communities in Oman to which assistance will be provided to arrange employment of personnel trained abroad under the new program.

2) **Formulation of the implementation program**

The implementation program should be formulated for continuous operation assuming that budgetary arrangement with prospective sponsoring companies can be made for the necessary costs and expenses.

Program 4-2: Management skill improvement program

Program Description

As mentioned earlier, most of Omani factory owners are not directly involved in management and employ expatriate managers who manage factories on behalf of those owners. While reliance with expatriate managers is inevitable at present since adequate management know-how has not been accumulated yet in the country, the country should be prepared for development of local management capabilities in the next generation.

This program is designed to mobilize qualified young people who aspire to become business owners or managers, and to provide them with continuous training so that they can do management by themselves in the future. Candidates include young employees, sons of business owners, bank or government employees, who intend to operate their own business, but not necessarily setting particular qualification.

Major areas of training are:

- 1) Exploitation of market needs and seeds of new business opportunities: organized tour on pioneer businesses in the country as well as abroad, presentation of R&D results at domestic and overseas research institutes, etc.;
- 2) Provision of the place for information exchange between different industries and fields to which participants belong;
- 3) Management training, including business planning and administration, production control, marketing, etc.

Key Success Factor

- (1) Cost sharing by member organizations and incentives for participation

In this area, various activities including regular seminars have been carried out on a continuous basis by IDU in MCI, while OCCI also conducts management seminars to its members as required. However, participants are always limited to business owners who are already management-minded. As a step to encourage management-mind of other

business owners and potential entrepreneurs, it would be useful to set up a program to motivate them.

In this connection, a program fully sponsored by the government will not bring substantial effect even if it may draw a certain number of participants. The program should attract participants who expect some results so that they will be willing to participate despite their subscription. Ideally, the program needs to be voluntarily organized and managed by participants at their own cost. At the same time, it should have attractive features, such as meetings with business leaders and government officials and granting of an annual award by the Sultan.

(2) Preparation of high quality program including seminars inviting foreign lecturers

In Oman, an increasing number of companies, led by government enterprises, has certain business experience and know-how. The program can tap experienced business managers, bankers, and government officials. At the same time, it is also important to organize a series of seminars by foreign lecturers who have learned lessons experienced in other countries.

It should be noted that the learning through the experiences and know-how of the other countries should not be confined to case studies on industrialized nations, which are often not applicable to developing countries. The studies should focus on experiences in countries which have been pursuing industrialization in the similar direction as Oman, which include Dubai, Singapore, India, Hong Kong, and Taiwan.

Alternatives

-- Wider scope of educational activities for motivating management-mind

Seminars and workshops are effective means of enlightening persons who have positive interest on management. However, an important issue in Oman is how to encourage business owners and their successors or potential entrepreneurs in the motivating a management-mind. Toward this end, it is necessary to conduct not only seminars but also more wider scope of enlightening activities.

Suggestion for Implementation

(1) Organizational Set-up

1. Lead agency: OCCI
2. Support roles: MCI
3. To establish a preparatory committee for the set-up of the program in OCCI, with participation of persons who act as core members for the preparation.
4. To solicit contacts to concerns by the preparatory committee to raise members

5. The government shall provide subsidies to cover the whole costs incurred for preparation, and 80% and 50% of the operating cost respectively in the first and second year. The government subsidy should also cover the cost for recruiting new members, and 50% of the cost for inviting foreign lecturers, while other costs and expenses will be funded through membership fee and other revenues.

(2) Relationship with the existing program

OCCI has a similar program but it is only for its members. IDU's activities should include those not covered by the program. Thus, these activities are complementary in some part and cannot be replaced with the proposed program. Nevertheless, duplication of efforts and resources is inevitable, if all of them are to be operated on a continuous basis, in light of the fact that potential members are relatively limited in number. A possible solution is to organize a coordination committee by the three organizations. The function of the committee is to review the individual action programs prepared by each of the three to recommend any part of those program which can be conducted jointly. To maintain independence of the organizations, it is important for them to develop their own activity plans, based on which possibility of joint activities should be considered.

(3) Implementation period

The preparatory committee should be organized immediately. The committee shall carry out preparatory work for the set-up of the program, while undertaking activities to raise members.

7.5 Establishment of Technological Basis

Introduction

For countries where technological advancement is still behind the world standards, it is important to adopt and assimilate advanced foreign technology, thus keeping pace with the latest adopted worldwide.

For less industrialized countries pursuing industrialization, the establishment of technological basis is essential, particularly in building up the following requisites:

- 1) Preparation of the environment encouraging transfer of foreign technology
- 2) Ability to select and adopt appropriate technology
- 3) Technical capability to carry out improvement of technologies, engineering, product development and other technical development based on thus transferred technologies to attain more advanced ones.

The overwhelming majority of industries existing in Oman use technologies transferred from abroad. There are few indigenous technologies or even those transferred from abroad a long time ago and inherited as traditional technology, but these technologies have not been adopted in existing up-to-date industries.

This phenomenon has been seen in the course of industrialization in many industrializing countries. It is most economical to transfer advanced technologies available in foreign countries, thereby filling a technological gap if there is a lack of domestic technological resources to develop such technologies within a short period of time.

Oman has virtually no restriction or imposes any obstacle in the transfer of foreign technology⁴⁾, since the legislation is relatively free on foreign investment, technology transfer, and imports of machinery and equipment.

The statutory basis for the registration of trade and service marks has now been in place since January 1989. A trademark is protected for a renewable 10-year period from its date of registration with the MCI⁵⁾. Included within the scope of trademarks are any words, letters, signatures, drawings and similar symbols that are used to distinguish commodities, products or services.

Seemingly, these favorable conditions have allowed companies to successfully select,

⁴⁾ It seems to be no problem importing industrial technology at the present level in Oman. However, in the future, it is necessary to set up a law and/or system to protect technology when Oman imports high technology in the future.

⁵⁾ In Asean countries, a term of license is: 14-20 years in Indonesia, 20 years in Thailand and Singapore.

introduce, and adopt appropriate technology. In practice, however, previously transferred foreign technologies present various problems for the interest of industrialization in the country. Technologies transferred to Oman have been selected in consideration of the limitations prevalent, and the industrial development peculiar to the country, namely (1) a small domestic market, (2) necessity to import most of raw materials and parts due to lack of industries to support operation, and (3) availability of relatively low-cost skilled labor from abroad. Thus transferred technologies are mostly conventional ones appropriate for labor-intensive production in small and medium-scale, rather than advanced technology enabling economic production in international scale. Since industrialization is still at an early stage and domestic production is undertaken in a limited scope through import substitution, the existing industries can afford to sustain even with the adoption of such less advanced technologies.

The existing industry has suffered no particular difficulty in production based on those technologies. This is due to the following reasons:

- (1) Those technologies are commercially proven ones which have been used in many countries over many years, and the factories adopting those technologies are operated by expatriate engineers and technicians who are already familiar with them.
- (2) When the government grants an industrial license to manufacturers for certain products, it defines the standards applicable to the production of those products, forcing the licensed manufacturers to produce the products conforming to such standards. Hence, those manufacturers produce the products with some level of quality control to meet the set standards.

The Omani industry, however, lacks the basic capabilities to assimilate transferred technologies and accumulate technologies for further advancement. Expatriate engineers and technicians employed in the Omani companies generally fulfill only assigned duties since they work under a short term contract. There are no indigenous engineers and technicians who have vast experience in application of those transferred technologies, nor those who can absorb technologies and skills held by expatriate engineers and technicians. Under this situation, Oman has so far lack the resource to lead technological advancement based on technologies transferred from abroad.

Transferred technologies have been used without any improvement or modification either at the time of adoption or during subsequent operation. Those technologies become obsolete and lose competitiveness, as these face technological innovation and advancement in industrialized countries, thus, compelling Oman to acquire new technologies.

In the past, Japan and other industrialized countries have adopted various technologies

transferred from abroad, and the leading role of those transferred technologies which has contributed to the subsequent technological advancement has often been overestimated or overemphasized. While such transferred technologies served to provide the basis for subsequent industrial development, the successful development was attributed much to their technological capabilities and resources to absorb said technologies. For instance, Japan has been devoted to research and development of technologies since the early 1900s⁶⁾, while intensively proceeding the adoption of foreign technologies between 1950 and 1970. This has resulted in successful achievement of improvement of technologies as well as development of new technologies through absorption of transferred technologies.

The future vision of the industrial development strategy, as discussed earlier, indicates the importance of (1) the development of technological infrastructure, such as testing and inspection facilities, from which functions of the technical service center and regional distribution center in the Middle East shall be based., (2) the development of linkage or supporting industries such as metal-working and plastics processing, and (3) the development of human resources to undertake the foregoing services. These can be well worked out by using imported equipment and expatriate personnel. However, more importantly is the nurture of the ability to identify and commercialize seeds of technological improvement and innovation from daily operation in the industries. In view of this, technological accumulation and build-up of capability and resources for technology development is essential, (1) by nurturing Omani engineers who are engaged in carrying out technological research and development, (2) while encouraging longer stay of qualified expatriate engineers with incentives (including grant of citizenship) to undertake such technological accumulation, research and development.

In particular, it is vital to: (1) undertake continuous research and development of indigenous technologies specialized in Oman, (2) while nurturing Omani researchers and engineers to undertake these research and development work.

At the same time, another importance is to build up functions that will guide and assist the development of new industrial undertakings, including those already identified in some areas. These functions should be undertaken by Omani engineers and researchers or alternatively by utilizing qualified foreign experts who are engaged with long-term commitment in the future. However, the initial step-up can be launched by temporary employment of foreign experts.

⁶⁾ The Japanese expenditure of R&D in 1942 was virtually the same level of R&D expenditure in 1959 (Technology Innovation and Industry in Japan, 1964)

Most of the industrial standards are adopted from the foreign or international standards directly or with some modification. This adoption procedure is one of the efficient ways to promote standard development. Nevertheless, there are some areas where the industrial standards specifically applicable to the local conditions are necessary to be developed⁷⁾. This will help improve the manufacturing and distribution efficiencies. In addition, and more importantly, it will help the country formulate its technological basis, in terms not only of research capability, but also of human resource development.

To meet the foregoing needs for the establishment of technological basis, it is proposed to undertake a program which is designed to provide assistance for technological research and development, and product development, thereby building up capabilities and resources for technological development. Details of the proposed program is described below.

Program 5: Establishment of technological research and product development assistance function

Program Description

The program entails the setting up of an institute which carry out (1) R&D for the development of technologies that promote the efficient utilization of locally available resources, and also for establishing product specifications to meet the local conditions, and provide (2) technical assistance and guidance to industries for product development as required by them.

The program has two principal objectives. The primary objective is to carry out R&D activities for the development of appropriate technologies related to the products specialized in Oman for which there are no foreign technologies readily available. The results of these R&D activities will be disseminated to the industries. Another objective is to develop competent R&D personnel through implementation of the foregoing R&D activities.

In Oman, as any R&D for technological development have never been conducted by public research institutes nor by private companies, no basis for technological development at present existed. Further, it must avoid the duplication of any R&D efforts in technological fields where other countries have advanced. Oman should undertake R&D applicable to the locally specialized conditions with regard to certain technologies

⁷⁾ It does not mean to neglect the importance of development of regional standards (GCC Standards), but can be used as a basis for development of the regional standards.

developed in other countries, rather than carrying out basic research for the development of new technologies.

The organization and functions of the proposed institute, and main theme and activities for R&D are enumerated below.

(1) Main theme for R&D

- 1) Technologies for processing some indigenous resources in which available foreign technologies are not directly applicable; due to special quality or limited reserves of materials to be processed, or due to specialty of materials which are not available in industrialized countries.

Examples:

(1) Use of kaolin resource: – Kaolin available in Oman is high quality but has color, and research on usage of colored kaolin is essential.

(2) Diverse use of date: – development of technologies for utilizing fruit, leaf, and tree of date. Since the dates are planted in very limited regions, it has rarely been a subject of R&D.

- 2) Development of product specifications and applicable technologies to meet special market requirements (such as small markets, special climate conditions, etc.) which are not readily satisfied by available foreign specifications and technologies.

Examples:

(1) Development of special specifications for automotive parts to be used under desert climate: – to establish industrial standards for automotive parts that can withstand harsh environmental conditions including high temperature and inclusion of sand.

(2) Development of regional standards for construction materials related to energy saving.

(2) Major functions

- 1) Research and development of technologies
- 2) Technical consultation and guidance
- 3) Research and dissemination of technical information
- 4) Relevant market and economic research

(3) Organization (not including the administrative section)

- 1) R&D department on *mineral resource utilization technology*
- 2) R&D department on construction materials
- 3) R&D department on machine parts

- 4) R&D department on agro-industry technology
- 5) Market and economic research department
- 6) Public relations and service department (or coordination department); consisting of a unit responsible for dissemination of R&D results to the industrial community, and a unit to receive inquiry from the industry, followed by assignment to related departments and monitoring and coordination of work progress.

All the departments except for 5) and 6) perform the functions of 1) to 3) among four functions listed above.

Key Success Factor

- 1) It is difficult to identify themes for R&D based on requirement by the industrial communities since they have no specific need for R&D because of their present operation entirely relies on technologies transferred from abroad as well as expatriate staff and workers, and also for the following reasons:
 - a) They did not find any need for improvement of those technologies at present because most of the technologies have been transferred during the last few years.
 - b) Expatriate engineers and technicians are used to raise no specific suggestion on improvement of adopted technologies.
 - c) Demand for technological improvement is not made known to the public due to the absence of a consulting organization.

In order to overcome the foregoing deficiency, the proposed institute should function to identify any potential needs and seeds for technological development underlying in the private sector. To this end, the institute should carry out the following activities:

- a) To identify and grasp technical issues faced by the industrial community through technical consultation and guidance service. For this activity it is important to make the industrial community recognize and appreciate the functions and activities of the institute for encouraging the utilization of those functions and activities by the industries. In this connection, the public relations department (or service coordination department) should play a central role.
- b) To incorporate demands from various industries into the annual plan of the institute. Those demands can be identified by means of setting up a consultative committee organized with the representatives of relevant government authorities and industries, through other appropriate means.

- 2) "Effective and productive use of locally available resources" has been and is one of major R&D subjects in many countries. However, almost all of modern technologies have been developed for possible use of widely available resources, as the result of long-standing research, tests and experiments. If any R&D is carried out on some resources simply aiming at utilizing available resources, it may often fail to accomplish with successful commercialization. In order to avoid such risk, it is important to justify economic feasibility of the research projects at an early stage, and the market and economic research department should be organized within the institute to carry out such function.

Suggestion for Implementation

(1) Organizational set-up

1. Lead agency: MCI
2. To organize the institute as an entirely new organization or an organization incorporating DG Specifications. Assuming relatively limited demand at the initial stage, the latter may be more effective, since the existing testing and technical consultation service functions as well as manpower held by the DC Specifications can be utilized.
3. While the institute should use local human resources (those having industrial experience), experienced foreign personnel should be employed at the initial stage to establish a definite direction for R&D and its methodology.

(2) Implementation steps

1. Detailed study on theme for R&D and the organizational structure for conducting R&D: Prior to implementation, a study should be conducted to identify R&D needs and seeds in the industry as well as in the country in general, define the immediate activities, and to define its functions and activities in coordination with those of other government authorities and institutions, particularly DG Specifications, the Ministry of Petroleum and Minerals, the Ministry of Agriculture and Fishery, and government-controlled manufacturing entities. As the industry has no definite demands yet, the study should identify potential needs and seeds underlying in the industry, and should also assess thus identified needs and seeds to make it sure whether those are really effective to build up the technological basis in line with the future vision of the industrial development.
2. Based on the result of the above study, theme for R&D should be defined and an organization suitable for such activities should be formed. Foreign experts capable of supporting specific R&D activities and identifying future development needs and

seeds through R&D and technical assistance to the industries shall be retained as required.

Other Relevant Programs:

- (1) Program 2-2: Liberalization of trade and investment
- (2) Program 4-1: Human resource development

Other Recommendations:

- (1) To maintain the current strict attitude for product quality for Omani products to gain recognition in the international market
- (2) To prepare for the development of system in protecting intellectual property, which will be the basic requirement for the future development as the regional technology center

7.6 Further Grading up of Infrastructure

Introduction

For the industrial development, the port is the most crucial infrastructure which requires upgrading. To attain the target of the Future Vision, which emphasizes making the most of the Oman's locational advantage, the port will play an important role.

Electricity and water supply will also be very important for supporting industrial development. Both electricity and water are projected to be in short supply in some years to come as existing supply sources become limited, but the projects to increase those supply are already under study. There is almost no problem for the communication system at present, as observed by industries.

The industrial sites, in general, are sufficient for industrial development in the foreseeable future. However, in view of inducing various business activities from abroad, further development of the industrial sites will be necessary, especially the extension of preferential treatment to export industries, and the existence of industrial estates catering to certain industries.

The following discusses the requirements of further grading-up of port facilities and industrial estates for supporting industrial development.

Recommendation for Port facilities

There is a reasonable presence of two important ports in Oman, namely Mina Qaboos and Mina Raysut. The former was opened in 1974 and built from its entrance to the Gulf while the latter is located in the southern region of Salalah and commenced operation in the same year. The Mina Qaboos port is geared at serving modern port needs and the Mina Raysut port was initially intended for smaller vessels but was later expanded to receive larger vessels and meet increasing container traffic.

Operating Status of Existing Ports

- (1) Mina Qaboos
- 1) Port Facilities

There are already various types of cargo that the Port of Mina Qaboos can handle annually, owing to the existence of modern port facilities. It has a total of 13 berths, a majority of which has draft depth of at least 30 ft.. The port also has a total open storage area measuring 1.7 million square ft. and a total transit shed area of 235,000 square ft.. Among the notable port equipment are two 35-ton gantry cranes. The growing demand for modern facility needs is sustained with the regular upgrading of

port equipment.

2) Existing Capacity

The Mina Qaboos port can handle a total of 2 million tons of cargo of various types, ranging from conventional to bulk cargo. The vastness of its container yard with an area of 4.7 hectares can accommodate 1,600 TEU's loaded containers and 600 TEU's empty containers.

(2) Mina Raysut

1) Port Facilities

With the harbor's expansion in 1982, a container terminal was made available with a 35-ton container handling gantry crane. The Mina Raysut port has 8 deep water berths with depth ranging from 4 to 10 m, an oil pier that can accommodate an oil tanker weighing up to 35,000 DWT, not to mention the shallow berths to receive launches, tugs and small boats. An open storage area totaling to 200,000 m² and a covered transit shed area reaching 12,000 m² is also present.

2) Existing Capacity

The expanded port now boasts of having an annual cargo throughput of 1 million tons. Its container yard is capable of storing 900 TEU's of loaded containers, 650 TEU's of empty containers and 28 TEU's reefer units.

Expansion Plans

(1) Overview

Further port development is envisioned for the two above-mentioned ports and the creation of a new port, to cope with the increasing cargo traffic. A segment of Mina Qaboos port development has already been started, and fund allocation for other phases of activities is already part of the Mina Qaboos Development Plan. A Master Plan for the Mina Raysut port on the other hand, envisages to make the port attractive to more shipping lines. The corresponding expansion will be based on a study of demand forecasts for container transshipment.

(2) Mina Qaboos

Four areas are involved in the Mina Qaboos port development. These are, 1) main maritime works, 2) dredging of the access channels and harbor basin, 3) buildings and other infrastructures, and 4) procurement of equipment. As mentioned earlier, development works already started particularly in undertaking main maritime works.

These include conversion of the existing berths into container berths installing quay-side container handling gantry cranes, which will be supplemented with 8 rubber-tire moving container handling gantry cranes. Dredging of a channel and harbor basin to a depth of 13 m has been done to complement the reclamation of Shutaify Bay by using the dredged material, developing a 15-hectare container storage area. Zoning of available area and its reallocation will also be initiated. Likewise, entry and exit gates, and small modern maintenance workshops will be made available.

(3) Mina Raysut

Much seems to be desired after the Mina Raysut port's first expansion, and the objective of making it attractive to more shipping lines prompted the Ministry of Communications to conduct a detailed comprehensive study identifying the short and long-term requirements of the port. Preliminary findings indicate that a 10% growth by the year 2015 may reach a container transshipment of 290,000 TEUs. The Master Plan which embodies the Mina Raysut port development is divided into three phases and is expected to be completed before the year 2015.

(4) New Port

The need for a new commercial port in Northern Oman was confirmed as the result of comprehensive feasibility studies conducted. Its need can be established on two grounds, first, to meet traffic demand forecasts and second, to cope with future type of fully-loaded vessels. Prospective sites are not yet determined but those being considered are sites near Sohar, Khaburah, Suwaiq, Musanah, Muraysi, Haradi, Quriyat and Sur. The selection will be based on detailed comparative studies and investigations. The New Port will not in anyway diminish the importance of the Mina Qaboos port because of the projected overflow of 1.7 million tons, of the 3.7 million ton cargo requirement that needs to be served in Northern Oman. By the year 2000, the port of Mina Qaboos can cater to only 2.6 million tons of the total demand. Fund allocation for the detailed study of this project may be part of the current Five-Year Plan, but actual construction may be started after the required funds are allotted in the Fifth Five Year Plan which is to start by January 1996.

Recommendation

- Upgrading of port facilities not only to cope with the increase in cargo handling volume expected in the future, but also to make the most of the locational advantage of Oman:
 - a) Upgrading of port to be able to receive major international container lines

- b) Promotion of major container lines to make a stop over to the port

The following considerations should be taken for port expansion and new port construction projects

- 1) Implementation program for the port expansion and new port construction project must be drawn to meet the growth of throughput cargo volume. Nevertheless, in order to attract international container lines, consideration should be made to satisfy minimum requirement as enumerated below.
 - a) To have container handling capacity more than nearby ports, including Jebel Ali, Sharjah, Fujayrah, and Khawr Fakkan; and
 - b) To secure sufficient space for future expansion, with a view to exceeding the size of Jebel Ali Port in the future.
- 2) A candidate site may be located within an area extending from Sur to Sohar via Muscat or an area in or around Salalah. Container lines may prefer a location near an arterial line, which makes Salalah the most suitable. Considering the distance of subsequent inland transportation, however, a site should be selected near Muscat on the northern coast generating the largest container demand.
- 3) Natural-gas based chemical industries (such as urea fertilizer, chemical methanol, and petrochemical) are likely to be located near Sur in consideration to accessibility to LNG pipelines. On the other hand, these products are generally shipped by bulk carriers or chemical tankers, and they can be handled at a port different from the container port. A final decision should be made by taking into account overall economic factors including possible economic benefit by using a single port. The same concept should apply to the gypsum project.

Recommendation for Industrial Estates

Overview

(1) Infrastructure Support

The necessary infrastructure facilities are more or less standard across industrial estates in Oman. These include roads, telecommunication system, sewage treatment system, solid garbage collection and disposal system, and the like. Social infrastructure also exists in the form of banks, shops, and medical facilities. Utilities such as water, gas and electricity are offered at subsidized rates.

(2) Land Plots and Sheds

Basic infrastructure are land plots and pre-built sheds that suit various scale of industrial requirements, these being available in different sizes. A maximum rental

period of 50 years including a 25--year renewal rights are accorded to tenants. The lease of these plots and even the sheds are also subsidized at 0.250 baizas per square meter annually for the former, and RO. 2 to RO. 4 per square meter for the latter. Said rates are subject to review every five years.

There are three existing industrial estates, namely, Rusayl, Raysut and Sohar, but there also are other industrial estates which are under development.

Rusayl Industrial Estate

(1) Size of Land Plots and Sheds

Covering a land area of 110 hectares, this industrial estate consists of 125 plots each with a size averaging 1,000 m². The size of pre-built sheds on the other hand, ranges from small 300 m² to huge 4,500 m².

(2) Occupancy Rate

At present, about 65 factories are located in this site, and 20 more factories are now under construction. The Public Establishment for Industrial Estate (PEIE) has allocated 55 of industrial sheds it built, and 9 units are being constructed and already reserved for tenants. To date, there remains about 45 tenants waiting to be allotted with units. In view of the prevailing and future demand, expansion efforts involving about 50 hectares has been conceived.

(3) Amenities and Support Services

The site is supported with several amenities which include health care facilities, post office, bank, mosque, and a commercial center. In addition, government services are made accessible because concerned public offices are lodged inside the estate. Residential amenities are extended with the presence of a housing complex, supervised and maintained by PEIE, which becomes the home for 1,000 employees, and later to accommodate 5,000 employees once fully developed.

Raysut Industrial Estate

(1) Size of Land Plots and Sheds

The Raysut Industrial Estate has been allotted with a total land area of 103 hectares, of which 30 hectares has been developed under the Phase I Project. About 56 land plots are made available with sizes varying from 1,350 m² to 6,300 m². Further construction will be effected this year.

(2) Occupancy Rate

There are already 6 factories with advanced facilities covering an area between 13,000 to 21,000 m². Meanwhile, other seven plots are given to investors.

(3) Amenities and Support Services

The estate boasts of the existence of mosque, guest house, mutawaa house and car parks within the administrative complex. The estate's administration office likewise houses the post office, bank and a clinic. Plans are underway for having separate building for these latter services.

Sohar Industrial Estate

(1) Size of Land Plots and Sheds

This industrial estate is constructed on 36.6 hectares of land during its first phase development. The first phase construction involved 50 land plots of different sizes ranging between 1,200 to 11,000 m². Pre-built sheds of various sizes ranging between 450 to 1,500 m² are also offered.

(2) Occupancy Rate

About 8 advanced factories and 15 plots which have been designated to investors producing various products, comprise the estate.

(3) Amenities and Services

Similar to the Rusayl and Raysut industrial estates, built in the Sohar industrial estate are a mosque, bank, post office, clinic, car parks, small gardens, guest house and the like. Expansion-related works to provide other amenities and services are also planned.

Recommendation

In view of inducing various business activities from abroad, further development of the industrial sites will be necessary, especially the preferential treatment for export industries, and industrial estates specialized for specific industries.

The former is discussed as "Establishment of Free Zone" in Program 2-3.

The latter type of industrial estates designed for specific industries will contribute to the modernization and higher productivity of the industry. It includes industrial estates specialized in apparel industry with common facilities for upgrading the operation, as discussed as "Industrial Project for Upgrading an Existing Apparel Industries", and that of metalworking industries, which will particularly be required as supporting industrial basis

sometime in the future with accumulation of industry. Food industries often enjoy the provision of facilities specifically prepared for the industry, such as water supply facilities, packaging assistance center, raw material storing facilities, etc.. The provision of such facilities might attract foreign investments in this field, though a marketing research is required in advance to confirm the demand.

These industrial estates designed for specific industries may be a part of the zones within the existing/planned industrial estates, depending on the demand size.

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (1/6)

	Sultanate of Oman	Dubai, U.A.E	
	General Conditions	General Conditions	Special at Jebel Ali FZ *)
1.1. Restriction on business activities by foreign nationals	<ul style="list-style-type: none">Any foreign national or entity wishing to engage in trade or business in Oman, or to acquire an interest in the capital of an Omani company: - subject to a license from Ministry of Commerce & Industry.Commercial business by any foreign national or entity: - only by means of an Omani commercial entity established with foreign investment under the relevant Laws in Oman.No foreign participation allowed in general trading and services ventures	<ul style="list-style-type: none">Any business activities in U.A.E.: - allowed only for business companies established under the Federal Commercial Company Law, which require trade license or industrial license issued by the relevant ministry and commercial registration in municipality and chamber of commerce.Branches of foreign companies: - permitted to register in U.A.E., however, except for banks a local sponsor or service agent required.No foreign national or entity allowed to be general partners in partnership.	<ul style="list-style-type: none">Permit to incorporate 100% foreign owned limited liability entities known as "Free Zone Establishments (FZEs)"; provided that FZEs activities restricted only inside FZ under a special license.For other activities outside FZ, requirements for entities outside FZ are applied.
2. Maximum limit of foreign ownership	<ul style="list-style-type: none">Up to 65% of the paid-up capital (Generally 51% Omani ownership is insisted)	<ul style="list-style-type: none">Up to 49% of the paid-up capital in companies incorporated.	<ul style="list-style-type: none">100% foreign owned for FZEs.

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (2/6)

	Sultanate of Oman	Dubai, U.A.E.	
	General Conditions	General Conditions	Special at Jebel Ali FZ *)
3. Capital structure of entity established with foreign investment	<ul style="list-style-type: none"> • Paid-up capital not less than RO. 150,000; but it may be reduced to RO. 30,000 if sanctioned by Minister of Commerce & Industry. 	<ul style="list-style-type: none"> • Paid-up capital in minimum: <ul style="list-style-type: none"> - Public shareholding company: Dh 10 million - Private shareholding company: Dh 2 million - Limited liability company: Dh 150,000 	<ul style="list-style-type: none"> • FZEs: Dh 1 million
4. Legal assurance on foreign ownership	<ul style="list-style-type: none"> • No special legislation explicitly stipulating legal assurance on foreign ownership, but in virtue no governments intervention on foreign ownership once authorized with MCI's license. 	<ul style="list-style-type: none"> • No special legislation explicitly stipulating legal assurance on foreign ownership, but in virtue no governments' restriction on foreign ownership in established companies. 	
5. Foreign exchange control	<ul style="list-style-type: none"> • No foreign exchange control 	<ul style="list-style-type: none"> • No foreign exchange control 	

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (3/6)

	Sultanate of Oman	Dubai, U.A.E.	
	General Conditions	General Conditions	Special at Jebel Ali FZ *
6. Repatriation of capital and profit	<ul style="list-style-type: none"> • No special legislation explicitly stipulating assurance on repatriation of capital and profit by foreign investors, but in virtue 100% repatriation of capital and profit allowed for foreign investors. 	<ul style="list-style-type: none"> • No special legislation explicitly stipulating assurance on repatriation of capital and profit by foreign investors, but in virtue 100% repatriation of capital and profit allowed for foreign investors. 	
7. Employment regulations	<ul style="list-style-type: none"> • No compulsory requirement for the employment of national workers; however, clearance is required from Ministry of Social Affairs & Labor to employ expatriates. (Government policy is to set a target for Omanization) • Employers having 20 or more employees: – required to participate in the vocational training of Omanis: – by arranging a training program under the supervision of the Vocational Training Authority: 	<ul style="list-style-type: none"> • No compulsory requirement for national workers, although the government policy is to ensure that U.A.E. nationals are employed to the extent possible. • Employment law establishes minimum terms and condition of employment. 	

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (4/6)

	Sultanate of Oman	Dubai, U.A.E.	
	General Conditions	General Conditions	Special at Jebel Ali FZ *)
8. Income tax	<ul style="list-style-type: none">- by contributing the "Labor Levy" payable at a certain percentage of the aggregate compensation of non-Omani employees.• Entities applying for industrial incentives to be granted: required to employ Omani workers at least 25% of total work force.• Imposed at the rates varying according to the percentage of foreign participation and the level of taxable income:<ul style="list-style-type: none">-tax rates ranging from 20% to 30% after nil up to RO. 30,000 of taxable income for entities of foreign participation.• Exemption from income tax:<ul style="list-style-type: none">- companies or establishments engaged in industry, agriculture and fisheries: exemption for the initial five years, which may be extended for another five years subject to the sanction by MCI.	<ul style="list-style-type: none">• Decrees covering corporate tax exit, but in practice the tax has been assessed only on:<ul style="list-style-type: none">• oil and/or gas producing companies, and• branches of foreign banks (tax rates are fixed in accordance with government agreements.)	<ul style="list-style-type: none">• Assurance on exemption from corporate tax for 15 years, which is extended for another 15 years.

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (5/6)

	Sultanate of Oman	Dubai, U.A.E.	
	General Conditions	General Conditions	Special at Jebel Ali FZ *)
9. Import duty	<ul style="list-style-type: none"> • Import duty generally set at 5% of CIF value; for foreign products competing with domestic product, higher rates of duty are attracted generally varying 15-20%. • Exemption from import duty granted by MCI on a case to case basis for companies engaged in industry specially for the export of locally manufactured products. <ul style="list-style-type: none"> - Machinery, equipment and spare-parts to be used for production - Raw materials and semi-processed goods used for the initial five years, which may be extended subject to the MCI's sanction. 	<ul style="list-style-type: none"> • Import duty generally set between 1% and 4%. 	<ul style="list-style-type: none"> • Duty free; however, normal rates of duty are imposed if subsequently resold in U.A.E.

Table 7-1 Foreign Investment Conditions for Industry in Sultanate of Oman and Dubai, U.A.E. (6/6)

	Sultanate of Oman	Dubai, U.A.E.	
	General Conditions	General Conditions	Special at Jebel Ali FZ *)
10. Financial support	<ul style="list-style-type: none"> • Lending of interest-free government loan for industrial projects (including expansion projects) even for those participated by foreign capital if owned by Omani more than 51 % and employing Omani manpower more than 25 % of total. 	<ul style="list-style-type: none"> • No financial support scheme 	

Note: *) Special conditions at Jebel Ali Free Zone are applied only to Free Zone Establishments which are special legal entities established to conduct activities inside FZ under a special license. As to other entities located in FZ, the requirements/conditions in U.A.E. are commonly applied.

Table 7-2 Target Countries for Foreign Investment Promotion for Specific Project/Industries

Projects/Industries to be Promoted for Foreign Investment	India	E.C.	Japan	Taiwan	Hong Kong	Singapore
1. Natural gas based chemical projects						
a. Poly-olefin petrochemical complex		○(C,T,M)	○(C,T,M)			
b. Ammonia and urea complex	○(C,T,M)	○(C,T,M)	○(C,T,M)			
c. Chemical methanol						
2. Mineral based projects						
a. Gypsum export			○(M)			
b. Gypsum board/gypsum fiber board industry		○(T,M)				
3. Export industries based on locational advantages						
a. Food processing industry for exports	○(R,T,M)			○(T,M)	○(T,M)	○(T,M)
b. Agro-products re-packing industry for re-export	○(R,M)			○(M)	○(M)	○(M)
c. Knitwear industry for export	○(R,T,M)			○(T,M)	○(T,M)	○(M)
d. Medicine re-packing industry for regional distribution and re-export	○(R,T,M)	○(R,T,M)				

Requirements: C: Capital
R: Raw materials
T: Technical management
M: Marketing

Table 7-3 Tax Incentives to be Granted for Different Status of License Issued (Example)

Status of License	Tax Incentives to be Granted		
	Exemption from Income Tax	Exemption from import duties imposed on import of machinery, equipment and spareparts used the licensed undertakings	Exemption from import duties imposed on import of raw materials, semi-processed goods or others for licensed undertakings
Special License for Export Industry	<ul style="list-style-type: none"> • 5 years tax holiday granted without application. • To be extended subject to decision by relevant ministry based on application. 	<ul style="list-style-type: none"> • Exemption granted on the basis of a list of machinery, equipment and spareparts submitted. 	<ul style="list-style-type: none"> • Entitled to import in duty free without application.
Special License for FZEs	<ul style="list-style-type: none"> • 10 years tax holiday granted without application. • To be extended subject to decision by relevant ministry based on application. 	<ul style="list-style-type: none"> • Same as above 	<ul style="list-style-type: none"> • Entitled to import in duty free without application.
Special License for Pioneer Industry	<ul style="list-style-type: none"> • 5 years tax holiday granted without application. • To be extended subject to decision by relevant ministry based on application. 	<ul style="list-style-type: none"> • Same as above 	<ul style="list-style-type: none"> • Entitled to be exempted for the initial 5 years. • To be extended subject to decision by relevant ministry based on application.
Normal License	<ul style="list-style-type: none"> • Tax holiday may be granted subject to decision by relevant ministry based on application. 	<ul style="list-style-type: none"> • Exemption may be granted subject to decision by relevant ministry based on application. 	<ul style="list-style-type: none"> • Exemption may be granted subject to decision by relevant ministry based on application.

Notes: 1) Reduction of income tax may be granted to entities employing Omani workers, varying the reduction rates depending on the category of workers employed.

2) For entities holding special license for export industry or FZEs, reduction of income tax may be granted, varying the reduction rates depending on the scale of net export earning and use of products.

Table 7-4 Profile of Oman Development Bank SAOG

1. Legal Status : State-own specialized bank
2. History : Established in 1976
: Operation commenced in 1979
3. Share Capital : R.O. 10 billion
4. Principal Activities
 - (1) Advancing and guaranteeing medium and long term loans to Omani establishments and companies which are subject to the Commercial Companies Law No. 4/74 and registered in the Sultanate of Oman. These loans will be used in the financing of development expenditure in sectors of industry, agriculture, petroleum, mining, fisheries, services and any other economic sector related to development.
 - (2) Participation in the capital of Omani joint stock companies operating in any of the above-mentioned sectors.
 - (3) Provision of technical assistance to Omani companies with regard to studies and preparation of projects for implementation.
 - (4) Obtaining loans from the Government and other parties including regional and international organization either through direct borrowing or in the form of bonds issued for public subscription.
 - (5) Managing and acting as an agent for the Government:
 - a) for the disbursement and collection of Government Soft Loan, and
 - b) in operating Export Guarantee and Finance Unit
5. Loans, Advances and Investments in Companies (R.O. million)

	<u>Loans and Advances</u>	<u>Investment in Companies*</u>
1992 :	18.99	2.72
1993 :	17.46	2.87
(* shares at cost)		

6. Portfolio by Sub-sectors

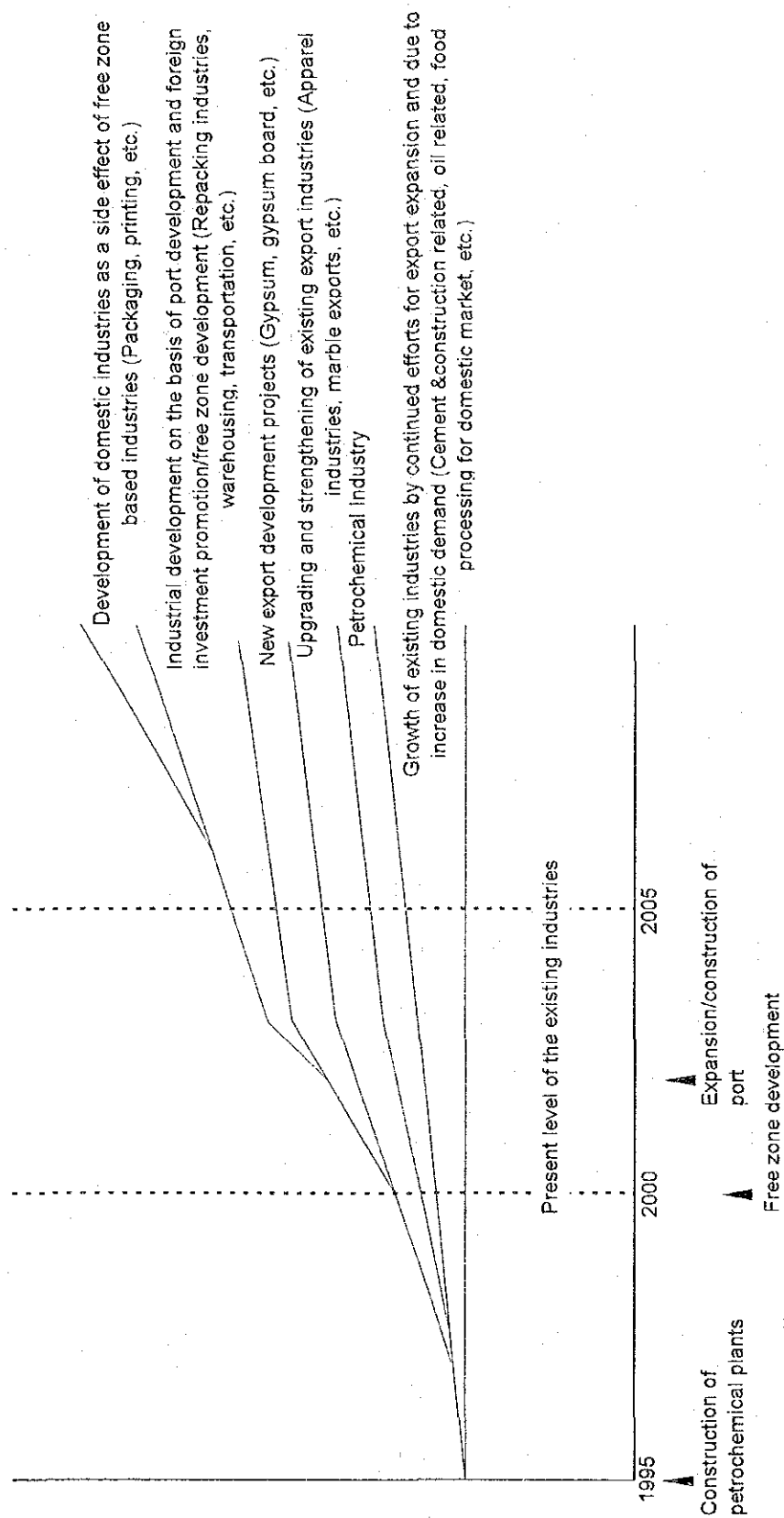
<u>Sub-sectors</u>	<u>Percentage of Portfolio</u>
1) Food processing, beverages, and storage facilities	19.1
2) Construction	15.9
3) Agriculture and fisheries	13.3
4) Textiles and garments	9.2
5) Chemical industries	7.9
6) Metal products	6.6
7) Paper and printing	7.1
8) Furniture	0.3
9) Small scale industries	1.6
10) Miscellaneous	<u>19.0</u>
	100.0

Table 7-5 ODB Financing to Industry (by Sub-Sectors) 1979 - 1992

						(R.O. '000)
	No. of Project	Total Project Cost	Average Cost per Project	ODB's Total Loans	Average Loan per Project	% of ODB's Loan to Project cost
1. Foodstuff and beverages industry, and warehousing facilities	73	36,101	495	14,735	202	40.8
2. Chemical industry	64	34,872	545	15,922	249	45.7
3. Building materials	56	49,877	891	11,239	201	22.5
4. Furniture industry	13	4,986	384	2,245	173	45.0
5. Paper and printing	34	11,010	324	4,832	142	43.9
6. Textiles and garments	13	10,985	845	2,775	213	25.3
7. Metal products	28	11,303	404	5,128	183	45.4
8. Other industries	10	6,959	696	2,171	217	31.2
Sub-total (1-8)	291	166,093	571	59,047	203	35.6
9. Small scale industries & vocational training	36	1,693	47	751	21	44.4
Total	327	167,786	513	59,798	224	35.6

Source: ODB

Figure 7-1 Growth of Industry Sector and Its Components
 -Growth Strategy Concept -



Note: Not to scale. Indicative only.

Figure 7-2 Function Development toward International Hub in the Middle East (1/5)

- Shipping Functions -

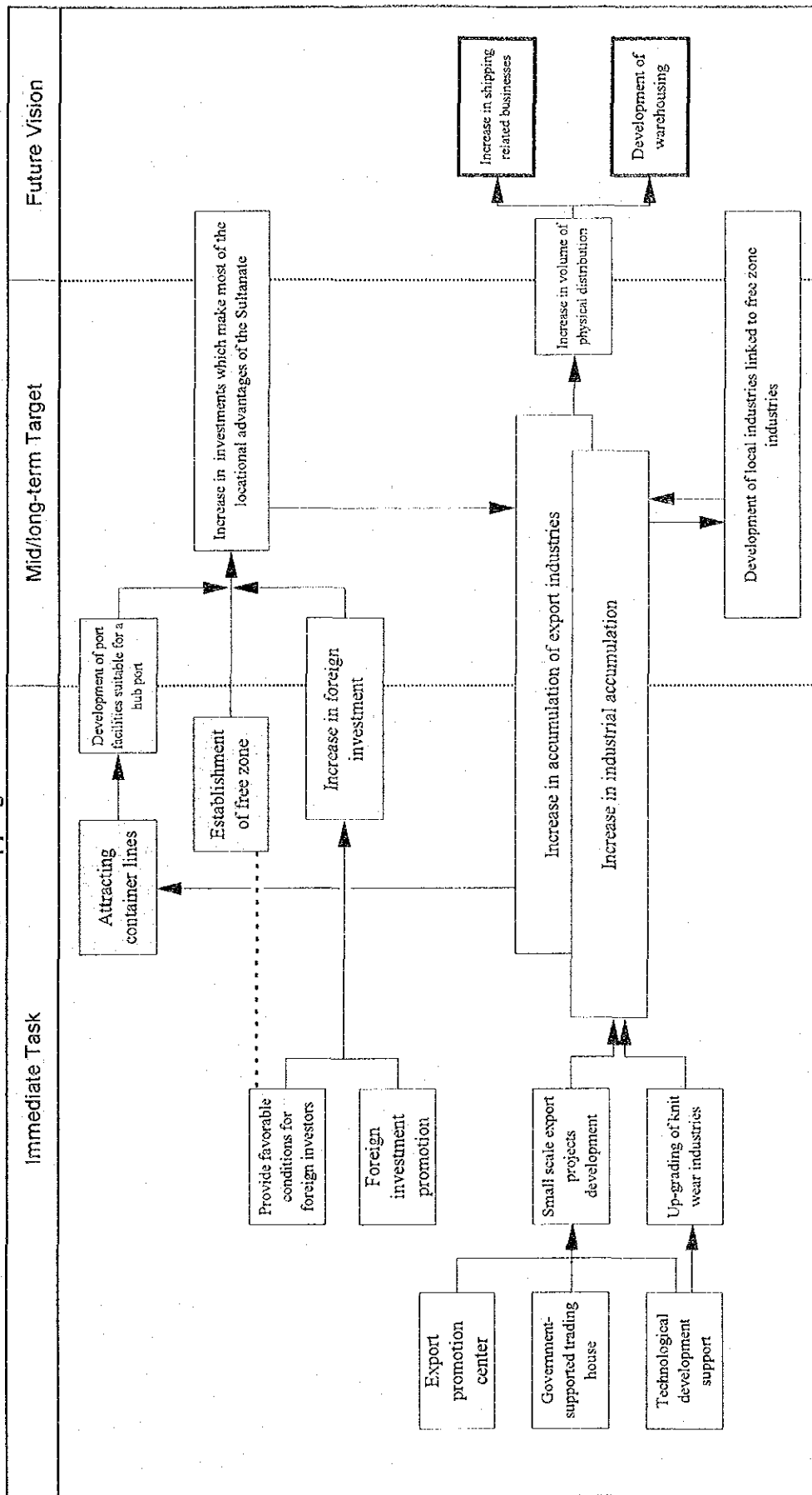
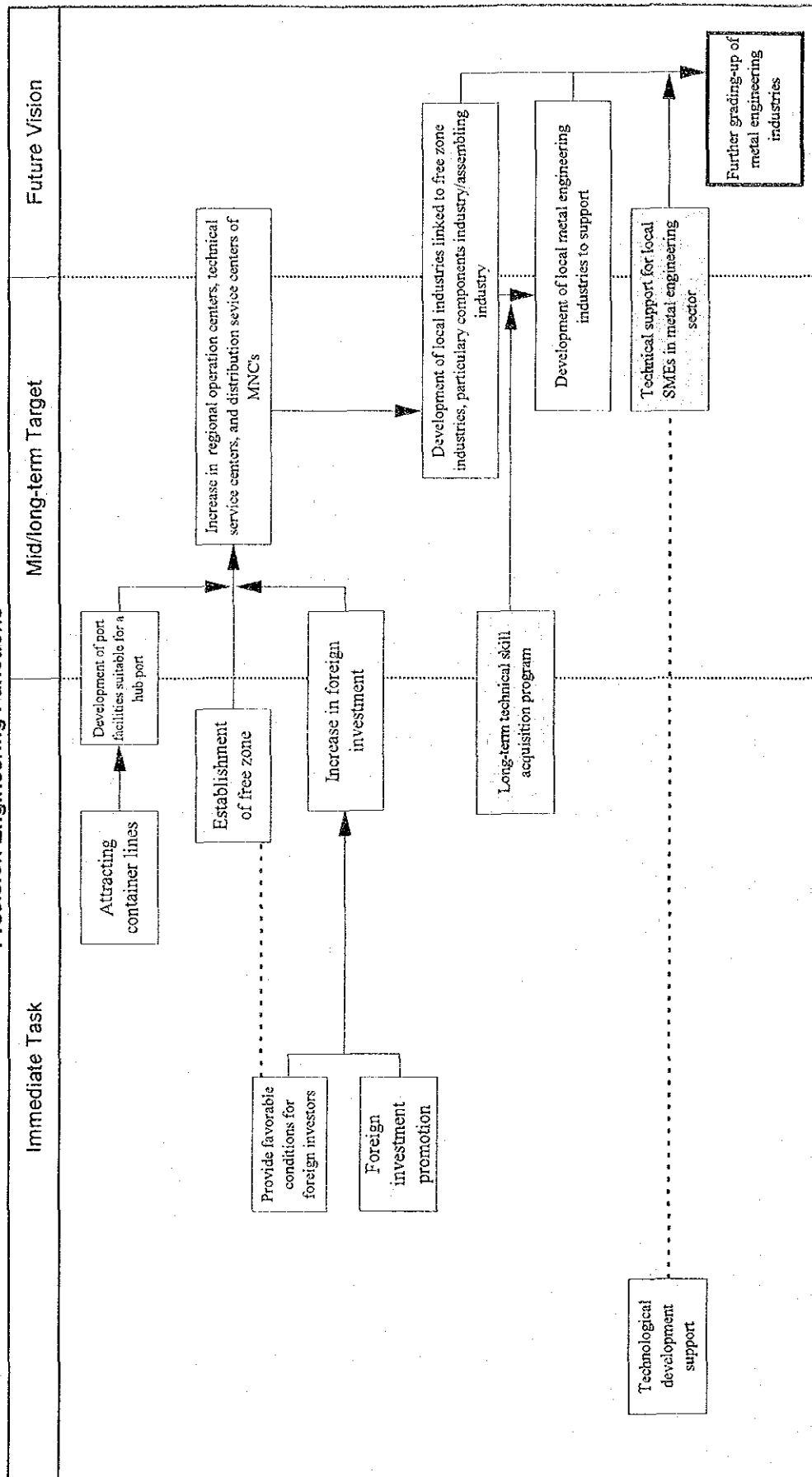


Figure 7-2 Function Development toward International Hub in the Middle East (2/5)

- Precision Engineering Functions -



▤ Functions to be developed

▤ Major programs directly related to the function development

Figure 7-2 Function Development toward International Hub in the Middle East (3/5)

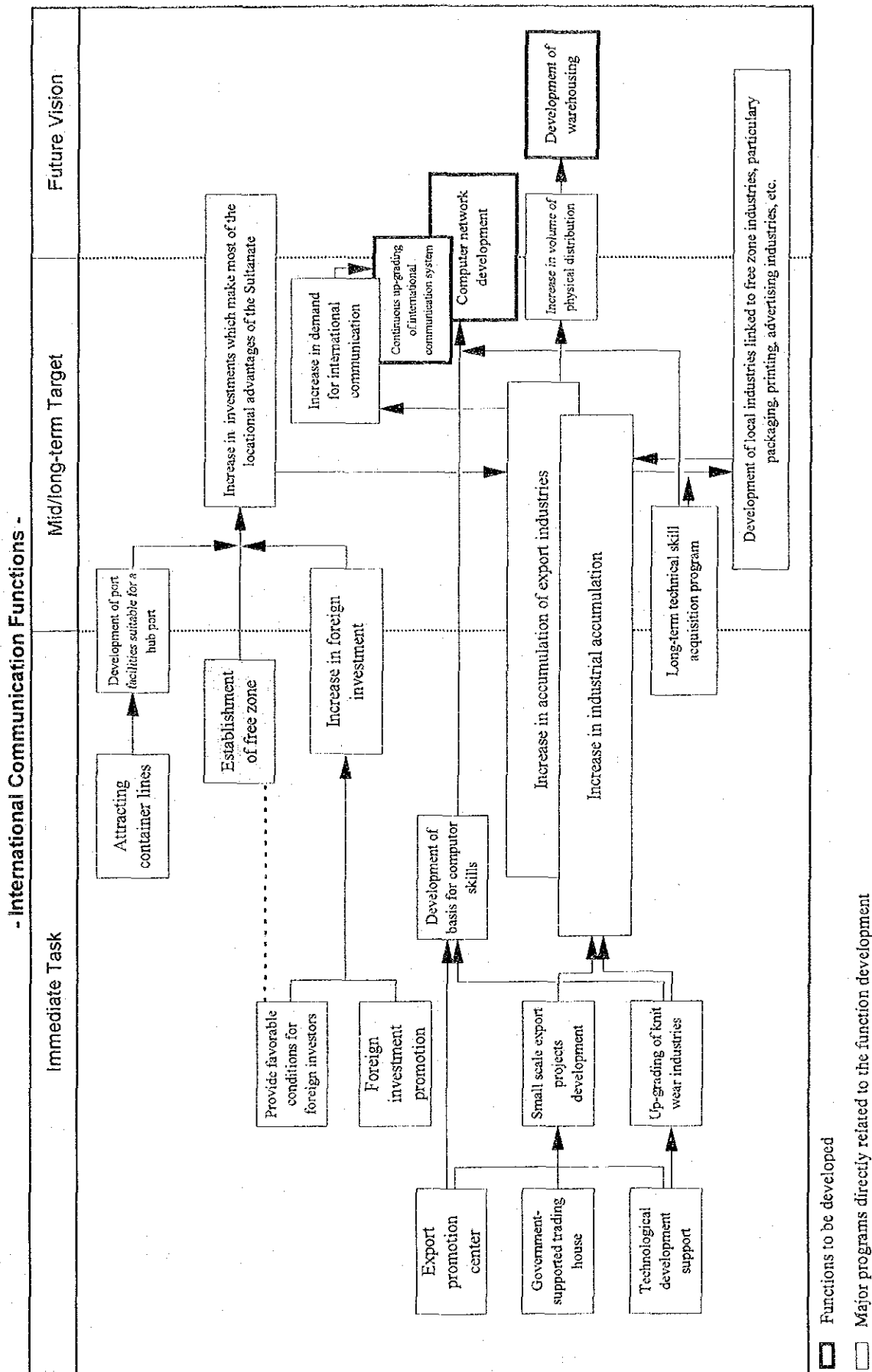
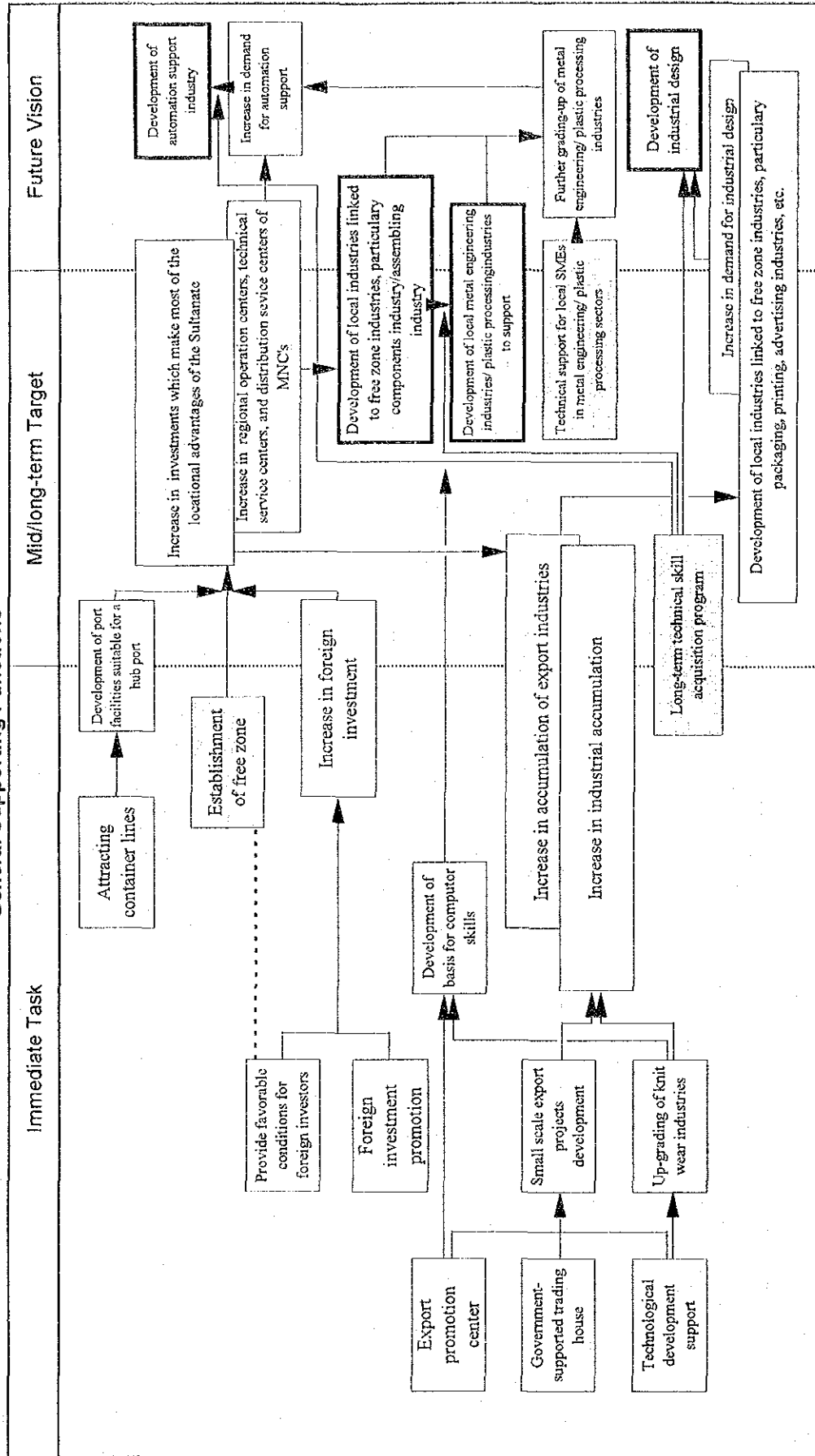


Figure 7-2 Function Development toward International Hub in the Middle East (4/5)

- General Supporting Functions -

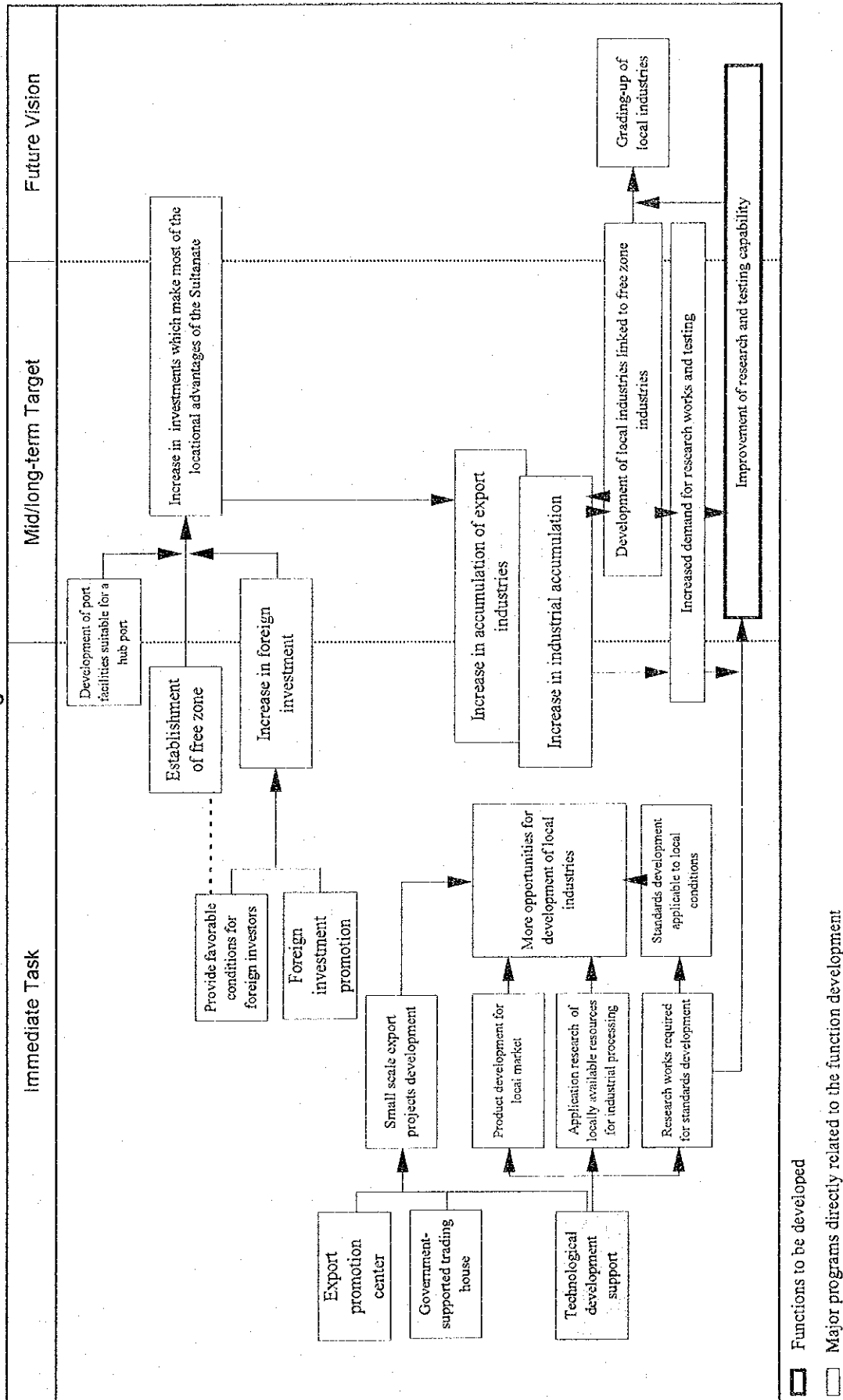


Functions to be developed

Major programs directly related to the function development

Figure 7-2 Function Development toward International Hub in the Middle East (5/5)

- Research & Testing Functions -



8 Recommendation on Implementation of Government Support Programs for Industrial Development

8.1 Phased Implementation

Since the government support programs recommended in the foregoing cover various areas of activities, they are necessary to be implemented one by one according to the extent of importance. In addition, there are some programs which will not be effective unless the prerequisite conditions are fulfilled in advance, and therefore, phased implementation is more adequate in this sense.

Figure 8-1 indicates the timing of government support programs for their effective implementation, assuming the promising industrial projects stated in 6.4.3 will materialize at an earliest possible time.

As already discussed, the immediate task for industrial development in this country is to increase its industrial accumulation making most of the resources and markets available, though they are limited. Thus, the priority of industrial development is to be placed on improvement and strengthening of existing industry, and promotion of investment, particularly of private sector, for increasing production for both domestic and export markets. The aggressive promotion of foreign investment with anticipation to the capability for marketing and technology will be the core of investment promotion. Therefore, promotion of investment by foreign capital and promotion of export, among others, are the necessary actions to be taken immediately.

The development of industrial infrastructure, which is indispensable for supporting future development of industry, is also necessary to be taken action at the earliest, taking into account the time required for the development.

The program for developing technological basis, particularly its initial steps, should be started as soon as possible, in that it is indispensable for the future development of industry, and it takes time, although the need for it by existing industries is not significant apparently. However, the program should not be implemented without considering the extent of increase in industrial accumulation in this country, so as to avoid the over building up of the basis disproportionate to the stage of industrial development.

The program of human resource development could result in adverse effect without adequate demand for the resources, and therefore, should be implemented also in response to the increase in industrial accumulation.

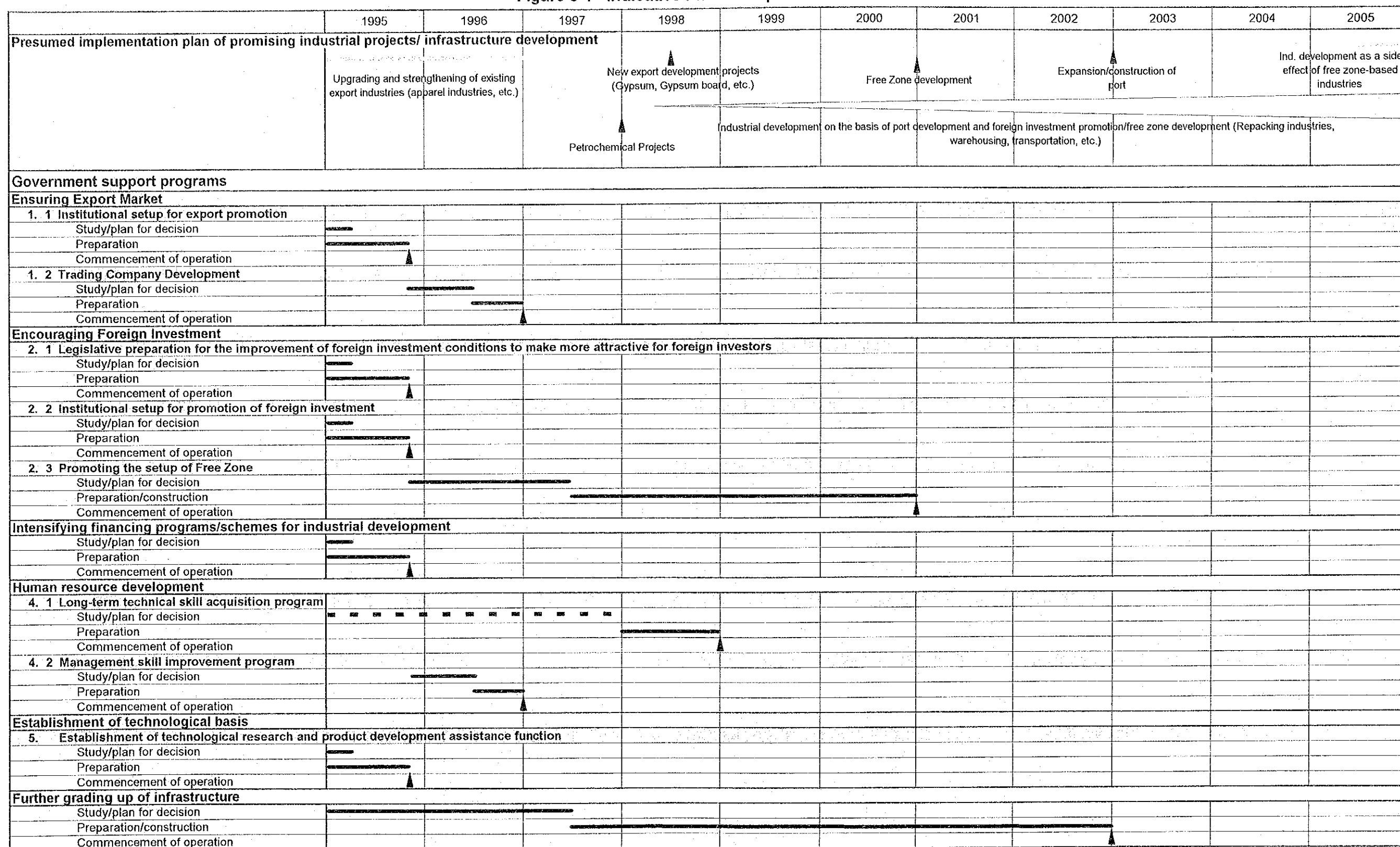
8.2 Organizational Setup for Program Implementation

The recommendations for organizational setup for implementing the individual programs are described in the foregoing sections. The enforcement of various support by organizations centering the Government, is essential in one hand, but due attention is necessary on the other hand to avoid over investment in implementing the programs which is often caused by the small size of the market. The organizational setup is necessary to be integrated among the programs with similar activities and functions, and to prevent develop independent organizations for each required functions regardless of its size. The organizations should be either expanded or established as a separate organization, when the necessity arises, in accordance with increase in their activities.

The following indicate the possibility of setting up organization integrating it among the different programs:

- 1) The organizations for setting up institutions for promotion of foreign investment (Program 2-2), and promotion of export (Program 1-2), may be integrated into one. However, the trading house for promotion of small/medium export (Program 1-2) should be a separate organization to ensure their specific function.
- 2) The consideration is necessary for the program of development of technological basis (Program 5), to avoid duplication of investment with the existing Directorate General of Specifications. Further, the existing testing and inspection facilities of the Directorate General should be utilized as much as possible. Nevertheless, research and development by Omani themselves should be ensured as intended in this program.

Figure 8-1 Indicative Phased Implementation Plan



Note: ▲ Commencement of operation

ANNEX

ANNEX 1

ANALYSIS OF THE EXISTING INDUSTRY BY SUBSECTOR

1. Food and Beverage Industry

1.1 General

The food industry in Oman consists of oil and fats, bakery products, snack food and confectionery production, soft drink and mineral water, in addition to an ordinary processing industries of grain mill products, meat, fishery products, vegetables and fruits.

Among them, only the fish processing/canning industry is located near production sources, while other subsectors are mostly located near their markets.

While the fish processing subsector establishes itself as a major export industry, other subsectors mainly serve domestic demand and export a surplus. In addition, there are some subsectors, e.g., tea bags, which equally serve domestic demand as well as export markets because of their advantages in distribution networks.

Most of the subsectors rely on imported raw materials, excepting the fish processing subsector as well as secondary and tertiary processing industries.

The extent of processing is relatively limited in most of subsectors, which produce general food products. Only few of them develop their own products according to market needs.

207 manufacturing enterprises are registered in the food and beverage industry. 25%, 52 enterprises, have a capital of RO.100,000 or over. These relatively large enterprises have successfully introduced technology, equipment and experts from foreign countries at an early stage of operation. They are now manufacturing relatively high quality products, which are shipped to domestic markets or are exported when a surplus arises. However, most of them had relied on foreign companies for technology transfer only at the initial stage, and are relying on expatriate engineers for their operation.

There are 104 small enterprises and micro enterprises with a capital of RO.25,000 or less, accounting for 50% of total. 60 enterprises of them are bakeries, 23 are flour mills, and 20 are engaged in spice and coffee milling and packaging.

Medium-size enterprises with a capital between RO. 25,000 and 100,000 amount to 51 (25% of total), of which 29 are bakeries. 13 enterprises are classified as other food products, consisting of relatively large enterprises engaged in ice manufacture and confectionery production, and small and medium-size enterprises in ice manufacture, confectionery production, milling and repacking of spice, coffee and beans. Remaining 9 enterprises are in the areas of meat processing, dairy products, fish processing/canning, and soft drink production. Many of them have a capital of RO.50,000 or more, and their

characteristics are similar to those of the above-mentioned enterprises with capital of RO.100,000, mainly differing in that they only serve local demand.

1.2 Meat Processing

Two companies are registered in the meat processing subsector. One is located in Muscat and another in Salalah. The former packs and processes fresh and frozen meats (producing meatballs and sausages) and exports more than 80% of its total production. The latter mainly supplies products to the southern area.

The country imported RO. 24.5 million worth of meats and processed products in 1992. Imports of live animals totaled RO. 9.4 million. On the other hand, domestic meat processing industry accounts for a very small portion of the domestic market. Annual sales of the largest supplier are limited to around 1 million Rials, and the country's exports of meats and processed products, and live animals amount to RO. 7.3 million.

The value of locally produced meat processing products accounts for more than 55% of the local demand. In practice, however, local products maintain market share of 20% or less. Also, export prices are much lower, 60% – 80% lower than domestic ones. This indicates that domestic demand for processed meat products is relatively small. Also, domestic suppliers are facing intensive competition with imported products, so that they have to export surplus products not consumed in the domestic market.

The raw material cost for processed meat products accounts to 85% of the total production cost, which exceeds sales prices. Under these circumstances, a new investment project cannot be expected in the industry unless local demand for meat processing products grows significantly.

1.3 Dairy Products

Ten enterprises are registered in the subsector. 2 are located in Dhofar and serve the southern area. Other 8 companies are targeting Muscat. All of them are relatively large in size, and 7 have a capital of RO.100,000 or over. Only one company in Muscat exports its products, which value is limited to less than RO. 1 million.

Oman imports RO. 27 million worth of dairy products annually. Those not produced locally, such as butter and cheese, are mainly imported from Europe and Australia. On the other hand, locally available products compete with imports from the UAE and other GCCs. In fact, they face strong competition from the GCC products, and the largest local supplier estimates their share of the domestic market below 30%. 2 GCC-based dairy companies have established their own distribution channels within Oman.

The exporter is one of the companies established under the government policy in the

1970s which promoted import substitution in all the industrial areas. In the 1990s, the company started exports of evaporated milk, yogurt, and ice-cream to the GCC countries (accounting for 10% of its sales in 1991), which improved operating results. Unlike other foodstuff, the company does not export dairy products to dispose a surplus not sold in the domestic market. Rather, it seems to be the result of aggressive marketing activity. Nevertheless, it is difficult for the company to gain cost competitiveness against products from other GCC countries. Therefore, the establishment of the brand image and the reinforcement of quality competitiveness are the key to the success in the export market.

The dairy industry procures less than 20% of its raw materials from local sources. Two thirds are fresh milk bought from dairy farms, and remaining one third comprise of packaging materials. Powder milk, butter, and other materials are mostly imported. Also, 30% - 50% of packaging materials are imported.

In light of the fact that the production base in the UAE has the similar weakness, however, Oman has opportunity to accomplish further import substitution and export promotion in this subsector.

1.4 Vegetable and Fruit Processing/Canning

Only one public enterprise, PAMAP, is registered in the subsector. PAMAP has 23 distribution centers throughout the country which collect agricultural products. It also produces lime powder and pickles, which are exported to the GCC countries, but not significant in value due to insufficient market research.

Again, the low productivity of the agricultural sector in the country inhibits large-scale, stable supply of vegetables and fruits for processing. At the same time, one should take notice of the fact that vegetables and fruits supplied only by a dozen of large farms are processed, and constitute major portions of foodstuff that are successfully exported from the country. This suggests that a small-scale food processing operation that use reliable supply sources and that serve specialized demand may become feasible since it is easier for farms to grow vegetables and fruits according to customer needs. However, the quality of products is not particularly high compared to competing products from Syria, Jordan, and Egypt. In addition to the need for quality improvement, the amount and type of supply varies greatly with seasons, so that the capacity of food processing plants needs to be designed carefully to prepare for a low operation rate in a certain season.

The country's imports of vegetables and fruits in 1992 amounted to RO. 56.5 million (Table A1-1-1), compared to RO. 4.8 million of exports. In total, processed vegetables and fruits accounted for RO. 9.3 million. Only processed tomato products exceeded 1 million Rials, totaling 1.8 million Rials. Thus, tomato products seem to be most suitable

for import substitution in terms of production size¹⁾, but the imports are not large enough to offer economy of scale.

1.5 Fish Processing

Thirteen companies are registered in the fish processing subsector. Ten have a capital of RO.100,000 or larger, and 3 are RO.70,000 or larger.

Almost all of fish processing companies in the country have been established to export fishery resources available in the country. Their geographical distribution is relatively dispersed in accordance with the availability of fishery resources along the coast.

The value of exports in 1992 was RO. 13.4 million, or 29,600 tons (Table A1-1-2), while imports amounted to around RO. 1 million. Lobsters account for approximately 20% of exports on a per value basis (2.6% by weight) and are mainly exported to Japan, the UAE, and Italy. Other fish products are exported to Korea and the UAE, which account for 53% of total, followed by Saudi Arabia and Japan. The four countries represent 70% on a per value basis and 80% by weight.

The degree of local processing is relatively low, and most of products are steamed (lobsters) or frozen. Some are dried. The low level of local processing is reflected in a small percentage of depreciation cost, less than 10% of total production cost. On the other hand, labor cost accounts for 10% - 20%. While foreign workers form a majority of work force in the industry, the percentage of Oman workers is relatively high at 30% - 40%.

The unstable fish catch is the major problem of the fish processing industry. It still has to be modernized, and is not capable of having a sufficient catch to meet the processing capacity. Also, many catches are wasted further reducing supply. The shortage of raw materials for the fish processing industry always presents a risk of a sudden cost increase, which discourages the industry to invest in more advanced processing facilities. On the other hand, diversification of products such as fish meal is hindered by various problems on the side of the fishing industry, including insufficient surplus catch.

While Oman is known to have prospective fishery resources, it constitute diverse types of fish and other marine life that attract most of attention. Accurate estimate of fish resources has not been done. Thus, a future prospect for the fish processing/canning industry in the country arises only after available fish resources are identified accurately, as well as the process after catch become modernized. Also, the development of products using these fishery products, such as pet food, needs to be considered.

¹⁾ It is reported that a new project to produce tomato ketchup became operational recently based on imported pulp.

1.6 Oil and Fat Processing

Two companies, one in Muscat and another in Salalah, are registered as oil and fat processing companies. The latter is a small company (having a capital of RO.25,000) in Dhofar and its details are not known.

The company in Muscat has a capital of more than RO.100,000, imports and refines raw vegetable oils, and packages them and exports 25% of total production (as of 1991, 50% at present).

The country's imports of oil and fat amounted to RO. 7.3 million, mostly vegetable oil. Of total, 60% – 70% (90% according to the company in Muscat) are assumed to be unrefined raw oil. As shipments to the domestic market remained unchanged in 1990 and 1991, the production increase came from export growth, although the capacity utilization rate hovered at around 65%. According to trade statistics, oil and fat exports amount to RO. 3.2 million and are destined to the GCC countries where 8 competitors (4 in Saudi Arabia, 2 in the UAE, 1 in Bahrain, and 1 in Kuwait) are operating.

The cost of the imported raw oil accounts for 55% of the total production cost, and that of locally procured materials (including packaging materials) represents 7%. The plant uses relatively old facilities and equipment, and depreciation expenses account for only 4% of the production cost. In this subsector, import substitution has nearly reached its limit. Together with a very high ratio of cost for raw materials from total costs, a new development project cannot be expected for this industry.

1.7 Grain Milling

Twenty four enterprises are registered in this category, and only one company, state-operated Oman Flour Mills, is classified to be a large enterprise. Remaining 23 companies are small enterprises or micro-enterprises having a capital of less than RO.25,000, and are assumed to be grain mills serving local markets.

Imports of grain mill products are very small (RO. 500,000 for flour and other secondary processed products) compared to grain imports amounting to RO. 30.1 million. This indicates the progress of import substitution. In addition, RO. 5 million of tertiary processed products, such as baby food and pasta, are imported.

In the primary processing industry, the raw material cost accounts for nearly 90% of total. As mentioned earlier, import substitution has also been completed mostly in this area. A major issue, instead, is how to increase the operating rate of processing, which is 70% at present. Clearly, it will depend heavily on export growth (currently 10% of production on a value basis) and development of domestic and export demand for tertiary processed products. The latter shows high potential, albeit quantity is not very large.

1.8 Bakery

Bakeries amount to 91 out of 201 registered entities in the food processing sector, the largest in number. All of them serve local markets, and 81 are classified as small enterprises or micro-enterprises having a capital of RO.50,000 or less. 10 companies are relatively large with a capital of RO.75,000 or over; 6 are located in Muscat, 2 in Al Batinah, and 2 in Dhahira. The two companies in Al Batinah serve Muscat as well as local markets.

One company located in Al Buraimi exports bakery products to the adjacent UAE and is classified as only one exporter in the subsector.

The country imports breads, biscuits and other bakery products worth RO.2.39 million. Major exporters are the UAE (RO.647,000) and the UK (RO.549,000).

1.9 Animal Feed

Two companies registered in the category have a capital of more than RO.100,000 and produce animal feed based on grains. One company is located in Muscat and another in Salalah to meet demand in each local market.

Animal feed imports amount to RO.789,000, estimated to be less than 5% of total demand. (By weight, 6,000 tons are imported, compared to total consumption of 150,000 tons). Thus, import substitution has been mostly completed for grain-based animal feed.

The cost of raw material as a percentage of total production cost is relatively high at 70% – 80%. In the southern region, production capacity is fully utilized and new capacity is being added. On the other hand, the capacity utilization rate is below 70% in the northern region. Since products from the southern region cannot compete in the export market due to a high transportation cost, the subsector's further expansion entirely depends upon domestic demand.

1.10 Beverages

Ten companies are registered in the soft drink and mineral water subsector, and 8 have a capital of RO.100,000.

Most of them are fruit juice (or essence)-based soda drink makers, except for one mineral water manufacturer, and one juice drink producer using imported fresh fruit juice..

The company produces juice drink from imported fresh fruit juice raw material, under license from a U.S. juice maker and exports its products to the U.S. in addition to the domestic market. The company also supply juice to a distributor in the UAE on an OEM

basis.

The company imports raw material natural fruits juice from India, concentrates from the U.S., and bottles and paper packages in printed form from various sources. Together with its location in Salalah, the company operates in a very unique environment. One factor that justifies the successful startup of the company is the Indian government's policy to ban the use of foreign brands (not any more).

Most of raw materials used by the soft drink makers, excepting cases used in the mineral water production process, are imported. Packaging materials are mostly imported, with the exception of plastic bottles that are molded by some manufacturers. Other packaging materials locally made are limited to shipping containers.

Geographically, one company producing mineral water is located in an interior area because of proximity to a source of raw material (water), while other soft drink manufacturers are located in major places of consumption including Muscat, Salalah, and Sur.

Oman imports RO.17 million worth of beverages annually. Of total, non-alcohol beverages, excepting mineral water (RO.165,000), amount to RO.11,330,000. Of which RO.10,280,000 are imported from the UAE. These beverages are mostly produced and supplied by multinational corporations (MNCs), indicating their formidable market power.

1.11 Chocolate Products

Although only one large company (with a capital of RO.100,000 or over) is registered in the category, there seem to be 6 medium-sized enterprises and 5-6 small enterprises serving the market²⁾. Domestic demand for chocolate products is estimated at around 4,000 tons annually, of which 60% - 65% are that of low-end market where local products and foreign products imported from the GCCs are competing. Consumers in the low-end market are price conscious, and the quality of products is mostly poor.

On the other hand, the high-end market is quality conscious, and there is only one leading domestic supplier serving the market, which accounts for around 15% of total. The remaining market is controlled by several MNCs.

Most of raw materials are imported, while the locally procured materials - vegetable oil, packaging materials (corrugate cardboards and polyethylene bags) and some intermediate products - account for as many as 10% of the total production cost. Finally, date - a purely indigenous food material - is used in some products, but it accounts for only 2% of the total production cost.

²⁾ They also produce other products and are registered in other category.

1.12 Other Food Products

49 enterprises are registered in the "other food products" category. Those with a capital of RO.100,000 or over are mainly making ice, snack food and confectionery. Also included are repackers of tea bags, coffee, salt, tomato powder, spice, and rice.

1.13 Geographical Distribution of Food Processing Companies

Most of food processing companies are located in Muscat that has a large concentration of population. In fact, 128 out of 205 companies registered in the category (62%) are located in Muscat and Al Batinah. Then, around 20 companies are located in each of other areas to serving local markets.

Among food companies having a capital of RO.50,000 or more, only a few of them are located in areas outside Muscat and Al Batinah, with the exception of fish processing and bakery. In A'Sharqiya, for instance, one dairy, one beverage, and 4 other food companies (including ice making) are located. In A'Dhhira, 2 companies in the other food category and one mineral water producer, as mentioned earlier, are located. Finally, Dhofar has a more diverse industrial base because of local demand, consisting of one meat processing, two dairy, one other food, one animal feed, and four beverage makers.

1.14 Food Processing Subsectors Not Present in Oman

Among SITC's 4-digit code industries, Oman does not have sugar refining and related products, alcohol products, and tobacco products, for which imports amount to RO.7.05 Rials, RO.4.05 million, and RO.71.62 million, respectively (Table A1-1-3). The absence of alcohol and tobacco industries is understandable because of religious and cultural orientation of the country. As for sugar refining, it has been located in areas accessible to material sources, and secondary processed products have been located in or near places of consumption or distribution centers from which primary products are shipped in the past. At present, however, large integrated plants are increasingly located near sources of raw materials. Thus, if Oman intends to establish sugar production one possible approach is to emerge as a distribution center in the Middle East.

Table A1-1-1 Import of Edible Vegetables, Fruits and Nuts (1/2)

Commodity group	H.S. Code	(Unit: R.O. million)	
		1992	1991
Potatoes, fresh or chilled	07019000	2.0	
Tomatoes, fresh or chilled	07020000	1.9	
Onions & Shallots	07031000	1.9	
Vegetables, fresh or chilled	07011000 - 07099200	8.8	9.2
Dried lentils, shelled, whether or not skinned or split	07134000	1.1	
Vegetables uncooked, cooked, or processed	07101000 - 0714900	2.8	3.3
Sub total	07	11.7	12.5
Coconuts	08011	0.4	0.1
Nuts	08013 - 08029	1.0	1.0
Mangoes, fresh or dried	08045020	1.8	
Oranges, fresh or dried	08051000	7.6	
Grapes, fresh	08061000	4.1	
Melons, fresh	08071010	2.3	
Watermelons, fresh	08071020	2.0	
Apples, fresh	08081000	4.9	
Fruits	0803 - 08134	24.9	21.9
Sub total	08	26.4	23.0

Table A1-1-1 Import of Edible Vegetables, Fruits and Nuts (2/2)

Commodity group	H.S. Code	(Unit: R.O. million)	
		1992	1991
Tomatoes prepared or preserved otherwise than by vinegar or acetic acid	20020000	1.8	
Other vegetables prepared or preserved otherwise than by vinegar or acetic acid, not frozen	20050000	3.3	
Fruit, nuts and other edible parts of plants, otherwise prepared or preserved,	20080000	1.7	
Sub total	20	9.1	7.3
Food preparations not elsewhere specified or included	21060000	6.9	
Sub total	21	9.3	5.7
Total		56.5	48.5

Note: Imports under H.S. Code 07, 08, 20 and 21

Source: Royal Oman Police, "Foreign Trade Statistics, 1992"

Table A1-1-2 Export of Fish and Lobsters by Destination in 1992

Destination	(Unit: R.O. 1,000, ton)			
	Fish		Lobster	
	R.O.	Ton	R.O.	Ton
Holland	125	627	139	29
Japan	735	1,780	939	175
Korea st	2,937	8,263		
Lebanon	104	335		
Qatar	189	886	0.4	0.2
U.A.E.	2,725	9,610	414	202
France	439	741	332	87
Greece	823	1,178	32	18
Italy	408	576	306	138
Saudi	1,061	3,657	358	88
U.K.	123	197		
U.S.A.	45	33	251	39
Hong Kong	491	148		
	10,205	28,031	2,771.4	776.2
Total (including others)	10,684	28,815	2,787	782
				13,471
				28,807
				29,597

Source: Royal Oman Police, "Foreign Trade Statistics, 1992"

Table A1-1-3 Import of Agricultural Produce and Prepared Foodstuffs

Commodity group	H.S. Code	(Unit: R.O. million)	
		1992	1991
		% of total	% of total
Meat and live animals	01 & 02	33.9	32.2
Dairy produce	04011 through 04063	26.3	26.1
Edible vegetables, fruits and preparations of these produce	07, 08, 20 and 21	56.5	49.5
Cereals and products of milling industry, preparations of these products	10, 11 and 19	35.6	34.7
Beverages, spirits and vinigar	22	17	13.3
Tobacco and its substitutes	24	71.6	36.3
Others	All other code not included above	37.4	35.1
Total		278.3	227.2

Notes: 1) Imports under H.S. Codes 01 through 24

2) Commodities under each "commodity group" are classified by H.S. Code