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A STUDY ON FDI IN SULTANATE OF OMAN

DR. R. DHANUSKODI
SR. LECTURER
DEPARTMENT OF ACCOUNTING
SCHOOL OF BUSINESS
CURTIN UNIVERSITY
SARAWAK

ABSTRACT

Foreign direct investment (FDI) plays an extraordinary and growing role in global business. FDI in Sultanate of Oman has played an important role in the development of the Omani economy. One of the main objectives of the seventh Five year Development plan of Sultanate of Oman (2006-2010) is to encourage the domestic and foreign private sectors' investments in the economic growth. The research work is to study the general look of FDI in Sultanate of Oman. Further the study to analyze FDI by country of origin and elucidate FDI by industry wise contribution in Oman. For all data interpretation were made by tabulation, growth rate and trend analysis through Linear trend, growth percentage and relative share percentage. On the basis of the data and analysis of the study conclude that the general performance of FDI in Oman is highly commendable.

KEYWORDS

FDI by country of origin, FDI by industry and Foreign Direct investment (FDI).

INTRODUCTION

Foreign Direct investment is one of the most important growth mechanisms in the global economy today. Many countries have given the special concentration to monitor developments and changes in this area. The Foreign Investment Survey Report (2005-2008) conducted by the Directorate of General of Economic Statistics at the Ministry of National Economy [in cooperation with Ministry of Commerce and Industry and Central Bank of Oman] has classified the Oman Foreign investment into four major categories viz. Foreign Direct investment (FDI), Foreign Portfolio Investment (FPI), Financial Derivatives (FD) and Other Foreign Investment (OFI). In further the report states that FDI is an investment a long term relationship and lasting interest of a resident entity from one economy in an entity in an economy other than that of the investor. A ratio of 10% or more of equity ownership is applied to qualify investment as an FDI¹.

The International Monetary Fund's Balance of Payments manual defined FDI as 'an investment that is made to acquire a lasting interest in an enterprise operating in an enterprise operating in an economy other than that of the investor the investor's purpose being to have an effective voice in the management of the enterprise'². FDI has to play a major role in the internationalization of business, is defined as a company from one country making a physical investment in to building a factory in another country. FDI is the process whereby residents of one country (the source country) acquire ownership of assets for the purpose of controlling the production, distribution and other activities of a firm in another country (the host country)³.

The term FDI is a wide term focused by all organization and has given the meaning for it. The United Nations 1999 World Investment Report (UNCTAD, 1999) defines FDI as 'an investment involving a long term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterpriser foreign affiliate)⁴. A foreign direct investment, net inflows (% of GDP) in Oman was 3.22 as of 2009. Its highest value over the past 39 years was 7.95 in 2007, while its lowest value was - 3.71 in 1974.

TYPES OF FOREIGN DIRECT INVESTMENT

The foreign direct investment may be classified on the basis of direction, target and motive.

Direction: The classification is based on the flow of FDI, when foreign capital investment in local resources is called inward FDI. On the other hand, when local capital is invested in foreign resources is called outward FDI. Sometimes Forward FDI is called as direct investment abroad.

Target: Under this classification the intention of the investment is considered as a basis. Investment in the same industry abroad as a firm operates in at home is called horizontal FDI, where an industry abroad sells the outputs of a firm's domestic production process is called vertical FDI. The forward vertical FDI means an industry abroad sells the outputs of a firm's domestic production.

Motive: FDI can also be categorized based on the motive behind the investment from the perspective of the investing firm. Resource seeking FDI is an investment which seeks to acquire factor of production that are more efficient than those obtainable in the home economy of the firm. In some cases, these resources may not be available in the home economy at all (e.g. cheap labor and natural resources). Market seeking FDI aims at either penetrating new markets or maintaining existing ones, it is argued that business are more likely to be pursued towards this type of investment out of fear of losing a market rather than discovering a new one. Efficiency seeking FDI is investment which forms hope will increase their efficiency by exploiting the benefits of economies of scale and scope, and also those of common ownership. It is suggested that this type of FDI come after either resource or market seeking investments have been realized, with the expectation that it further increase the profitability of the firm. Typically, this type of FDI is mostly widely practiced between developed economies; especially those within closely integrated markets. Strategic asset seeking FDI is a tactical investment to prevent the loss of resources to a competitor it is easily compared to that of the oil producers, whom may not need the oil present, but look to prevent their competitors from having it.

IMPORTANCE OF FDI

Many economies believe that FDI is good for an economy, as it provides jobs and increase domestic capital. Critics point out that profits from FDI usually leave the country and go to the foreign company. Encouraging FDI is a major part of some IMF restructuring programs⁵. FDI has given the opportunity for small and medium sized enterprises to become more actively involved in international business activities. Many governments, especially in industrialized and developed nations pay very keen construction to FDI for the reason the investment flows into and out of their economies can have a significant impact.

The most profound effect has been seen in developing countries, where yearly foreign direct investment flows have increased from an average of less than \$10 billion in the 1970's to a yearly average of less than \$20billion in the 1980's, to explode in the 1990s from \$26.7 billion in 1990 to \$ 179 billion in 1998 and \$

¹ Ministry of National Economy (2010), "Statistic Bulletin" Directorate General of Economic Statistics, Sultanate of Oman

² International Monetary Fund (1993): Balance of Payment Manuals, Fifth edition, viewed on December, 2010, <http://www.imf.org/external/np/sta/bop/bopman5.htm>

³ Imad A. Moosa (2002), "Foreign Direct investment – theory and evidence and practice." Houndmills, New York.

⁴ United Nations(1999) "World Investment Report 1999" paper presented at the United Nations Conference on Trade and Development, New York, ISBN 92-1-112440-9

⁵ The Free Dictionary by Farlex, "Foreign Direct Investment", viewed on December 2011 <http://financial-dictionary.thefreedictionary.com/FDI>

208 billion 1999 and now comprise a large portion of global FDI⁶. FDI plays an extraordinary and growing role in global business and internationalization of business. It can provide a firm with new markets and marketing channels, cheaper production facilities, access to new technology, products, skills and financing. For a host country or the foreign firm which receives the investment, it can provide a source of new technologies, capital, processes, products, organizational technologies and management skills, and as such can provide a strong impetus to economic development⁷.

FDI in Oman has played an important role in the development of the Omani economy. One of the main objectives of the Seventh Five Year Development plan of Sultanate of Oman (2006-2010) is to encourage the domestic and foreign private sectors' investment as per the significant role if these investments in the economic growth. The government pursues the amending of fiscal and commercial regulations and legislations to ensure attraction of these investments to the Sultanate. As a result of this continuous effort and support the Omani economy witnessed a steady growth in foreign investments in the different economical sectors in such a way that these investments become a stimulator for growth and creation of employment opportunities for young Omanis⁸. The statistical report clearly indicates that the foreign investment as a percentage of GDP is 47.9 in 2008. On the same time the FDI contribution was as a percentage of GDP is 18.8. It further noticed that the number of employees in foreign investment enterprises is 207,990 during the same year.

REVIEW OF LITERATURE

The Ideas (1999), on line magazine has published the article titled as "Intra-Asia trade and FDI". The article reconsiders the patterns of intra-Asia trade and the linkage with foreign direct investment in this region. The article concluded with some brief policy recommendations on how to avoid a recurrence of the Asian crisis in the 21st century. Foreign direct investment theory and evidence and practice (2002), Imad A Moosa's book express capital budgeting techniques, the techniques of setting transfer prices, and management of political risk, all of which are functions that are performed by multinationals. The World Bank (2000) in its series policy research –working paper series with number 2349, has published the article as "Trade, FDI and international technology transfer a survey" the article found that the local policy often makes there FDI infeasible, so foreign firms choose licensing or joint ventures. University Library of Munich, Germany (2008), in its series MRPA paper with number 15093, has published an article, "FDI a bid for progress". The article that FDI not a unique explanation for growth and progress, but is one of the more useful indicators of the open opportunities. Indiana University, Kelly School of Business department (2010), in its working paper has published the article titled as, "Do additional bilateral investment treaties boos FDI?" this paper finds that the stock of bilateral investment treaties (BIT) subject of diminishing returns measured in terms of FDI flows. This may suggest either stronger property-rights protection or greater latitude to use the host country as an export platform. Saidik and Bolbol (2001) investigate the effect of FDI through technology spillovers on overall total factor productivity for Egypt, Jordan, Morocco, Oman, Saudi Arabia and Tunisia over a 20 year period. They find that FDI has not had any manifest positive spillovers on technology and productivity over and above those of other types of capital formation. On the contrary, there are some indicators that the effect of FDI on total factor productivity has been lower than domestic investments in some of the countries over the period studied, indicating a possibly dominating negative crowding out effect. Most studies generally indicate that the effect of FDI on growth depends on other actors such as the degree of complementarity and substitution between domestic investment and FDI, and other country specific characteristics.

STATEMENT OF THE PROBLEM

FDI occupies a predominant role in the development of the economy. The government policy and plan are directly and indirectly motivates the FDI in Oman. The source of FDI for Oman is arising from 58 countries in the world. And it invested in to various major industries like oil and gas exploitation, manufacturing, real estate, renting business activities, construction, trade etc. FDI determines the economic growth of the country. Therefore a study of FDI in Oman is an important research area that needs to be explored.

OBJECTIVES OF THE STUDY

The overall objectives of the research work is to study the general outlook of FDI in Sultanate of Oman for the financial periods of 2005-2008, the specific objectives of the study are to analyze FDI by country of origin and elucidate FDI by industry wise contribution.

HYPOTHESIS

Hypothesis has been set up to indicate the direction in which the research study should proceed. The hypotheses of the study are;

1. A negative trend and growth rate of FDI in Oman.
2. A negative growth percentage of FDI by country of origin.

METHODOLOGY

The present study is based on the secondary sources of information; the secondary data were collected from the statistical bulletin of Ministry of National Economy, annual reports of the Central Bank of Oman, review of different books, articles and papers. For all data interpretations were made by the tabulation, Growth rate and Trend analysis through Linear Trend, Growth percentage and relative share percentage. The tools have been used to support discussions related to findings, finally conclusion were made accordingly.

RESULTS AND DISCUSSION

GROWTH RATE AND TREND OF FDI

The FDI statistics and data are evident of the emergence of Oman as both a potential investment market and investing country. An attempt is made to find out the Trend and growth rate of FDI in Oman. The amount of FDI and its trend are presented in table 1.

TABLE 1: GROWTH RATE AND TREND OF FDI (Amount in Million RO)

Year	FDI	Trend
2005	1588.9	1445.65
2006	2199.4	2448.22
2007	3518.8	3450.78
2008	4491.0	4453.35

Source: Statistics Bulletin, Ministry of National Economy, Directorate General of Economic Statistics and self computed

$$\text{Growth Rate (b)} = \frac{\sum xy}{\sum x^2} = 1002.57$$

$$\text{Trend (a + bx) where a} = \frac{\sum y}{n} = 2949.52$$

Growth rate and trend of FDI was performed to analyze the FDIs growth rate and trend for the study period. During the study period the FDI has been increased continuously, the growth rate and trend are 1002.57 and 2949.52 respectively and it is positive. The trend result for the study period is progressive and not

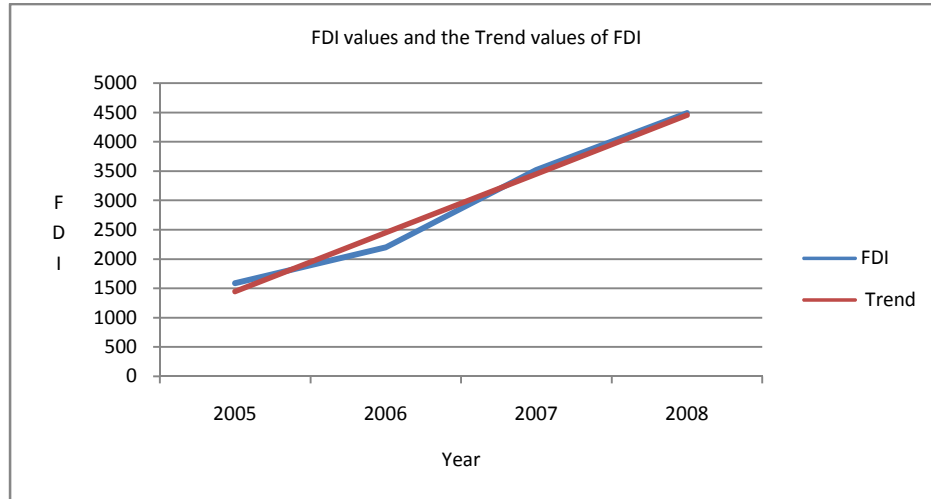
⁶ United Nations(1999) "World Investment Report 1999" paper presented at the United Nations conference on Trade and Development, New York, ISBN 92-1-112440-9

⁷ Jeffrey P.Graham and R.Barry Spaulding, (City Bank International portal) http://www.going-global.com/articles/understanding_foreign_direct_investment.htm

⁸ Ministry of National Economy (2010), "Statistic Bulletin." Directorate General of Economic Statistics, Sultanate of Oman

accepting hypothesis 1 of this study. Thus according to this study the growth rate and trend of FDI in sultanate of Oman is positive. To probe further, the foreign direct investment and the calculated trend values are graphically plotted in figure 1

FIGURE 1: FDI VALUES AND THE TREND VALUES OF FDI



FDI BY COUNTRY OF ORIGIN

The sources of FDI arises from 58 countries, the major 9 countries were taken for analysis are UK, USA, Kuwait, India etc. the amount of foreign direct investment by country of origin and its growth percentage are presented in table 2.

TABLE 2: FDI BY COUNTRY OF ORIGIN AND ITS GROWTH PERCENTAGE (Amount in Million RO)

SN	Country	2005		2006		2007		2008	
		Amt	Growth %	Amt	Growth %	Amt	Growth %	Amt	Growth %
1	UK	536.9	20	648.8	30.2	845.6	50.86	1275.7	32.28
2	USA	114.2	150.79	286.4	119.06	627.4	40.80	883.4	12.23
3	UAE	214.1	65.06	353.4	86.36	658.6	25.72	828.0	-10.35
4	Kuwait	56.5	93.80	109.5	40.18	153.5	31.66	202.1	-17.07
5	India	111.4	6.046	118.6	37.27	161.8	16.15	189.1	-0.95
6	Qatar	64.5	32.56	85.5	36.61	116.8	48.80	173.8	-1.89
7	Netherlands	32.7	64.52	53.8	84.39	99.2	-14.3	85.0	0.47
8	Kingdom of Bahrain	14.2	65.49	23.5	180.85	66.0	24.24	82.0	32.3
9	Mauritius	0.3	1566.66	5.0	-80	1.01	97.47	39.6	162.12
10	Other	444.1	15.94	514.9	53.21	788.9	-7.17	732.3	10.89
Total		1588.9	38.42	2199.4	59.98	3518.8	27.63	4491.0	12.59

Source: Statistics Bulletin, Ministry of National Economy, Directorate General of Economic Statistics and self computed [2009 figures are provisional]

Growth percentage = Following year amount – Current year amount / Current Year amount X 100

This analysis shows that the growth percentage of FDI flow from different countries for the study period has positive growth, except for the year of 2008. The year 2008 Growth percentage is calculated on the basis of year 2009. The year 2009 amounts are provisional; due to this the above said period countries shows negative percentage. The analysis exclude the growth percentage of 2008 then no countries have negative growth except Netherland in the year 2007 and not accepting hypothesis 2 of this study. Thus according to this study the growth percentage of FDI by country of origin is positive.

FDI BY INDUSTRY

The major industries of Oman using FDI are oil and gas exploitation, manufacturing, financial intermediaries, construction, trade etc. The amount of foreign direct investment by industry and its relative share percentage are presented in table 3

TABLE 3: FDI BY INDUSTRY AND ITS RELATIVE SHARE PERCENTAGE

Type of industry	2005		2006		2007		2008	
	Amt	Relative Share %	Amt	Relative Share %	Amt	Relative Share %	Amt	Relative Share %
Oil and Gas exploitation	680.2	42.80	860.3	39.11	1443.0	41.00	2112.4	47.04
Manufacturing	283.0	17.81	382.8	17.40	629.6	17.89	765.5	17.04
Financial intermediaries	285.7	17.98	354.1	16.10	640.6	18.20	654.8	14.58
Real estate, renting activities	68.2	4.29	189.1	8.60	311.3	8.85	376.0	8.37
Construction	75.9	4.79	159.5	7.25	170.4	4.85	174.7	3.89
Trade	93.0	5.86	126.9	5.77	139.3	3.96	160.9	3.59
Transport, storage and communication	19.6	1.23	34.7	1.59	62.5	1.78	87.8	1.95
Electricity and water	58.3	3.67	57.4	2.61	51.7	1.47	66.8	1.49
Hotels and Restaurants	14.3	0.90	18.1	0.82	50.7	1.44	66.0	1.47
Other Industry	10.7	0.67	16.5	0.75	19.7	0.56	26.1	0.58
Total	1588.9	100	2199.4	100	3518.8	100	4491.0	100

Source: Statistics Bulletin, Ministry of National Economy, Directorate General of Economic Statistics and self computed.

The analysis shows that oil and gas exploitation, manufacturing industry, financial intermediaries and real estates and renting business activities occupies the dominant share percentage in FDI by industry during the study period. Hotels and restaurants industry receives the least percentage of shares in FDI during the study period.

FINDINGS

1. As per statistical information FI as a percentage of GDP is 47.9 in 2008. On the same time FDI as a percentage of GDP is 18.8. The number of employees in foreign investment enterprises is 207,990 during the same year.
2. The foreign investment of the Sultanate of Oman is classified into four categories are FDI, FPI, FD and OFI.
3. During the study period the FDI has been increased continuously. The trend of FDI for the study period has been increased continuously.
4. The growth rate and trend of FDI is 1002.57 and 2949.5 respectively and also it is positive.
5. The FDI has come to Oman by through specified industry viz. oil and gas exploitation, manufacturing, financial intermediaries, real estate-renting business activities, construction, trade, transport-storage and communication, electricity and water, hotels and restaurants
6. The oil and gas sector contributed 47.04 per cent of the total FDI in 2008, a sum of RO 2112.4 million. It was followed by manufacturing and financial intermediation sectors with 17.04 per cent respectively.
7. The contribution of FDI in all industries has been increased continuously from 2005 to 2008 except electricity and water industry.
8. The source country of FDI to the Oman is 58; the most important 9 countries are UK, USA, UAE, Kuwait, India, Qatar, Netherlands, Kingdom of Bahrain and Mauritius.
9. The UK was the major source country of FDI in 2008 with RO 1275.7 million, followed by USA with RO 883.3 million
10. The UAE is the third largest FDI source country in Oman, followed by Kuwait, India, Qatar and Netherlands. It further shows that all the countries have been increased the contribution of FDI to Oman every year except Netherlands in the year 2008.
11. Hotels and restaurants industry receives the least percentage of shares in FDI during the study period.

CONCLUSION

The study of foreign direct investment in Sultanate of Oman, it is clear that the country has done praiseworthy performance (Growth rate, trend and relative share) in the field of FDI, FDI by country and FDI by industry. The overall analysis of FDI in Sultanate of Oman is satisfactory and is positive trend. On the basis of the data and analysis rightly conclude that the general performance of FDI is highly creditable.

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