Cavendish Maxwell

Building the Future: The Role of Special Zones in Achieving Oman’s Vision 2040

OPINION

Introduction: Vision 2040 and its three helpers

On the one hand, Oman Vision 2040 has a bold aim of modernisation: to enhance competitiveness, attract investments, and increase trade volumes.

On the other, there is the existence of Special Zones in Oman. UNCTAD (the United Nations' agency for trade and development) has encouraged Special Zones for many years. According to UNCTAD, they go by many names and come in many varieties and sizes, but what they have in common is that, within a defined perimeter, they provide a regulatory regime for businesses and investors distinct from what normally applies in the broader national or subnational economy where they are established.[1]

Special Zones are not new – the Greek island of Delos owed its wealth to enjoying similar status in classical times. More recently, China and the Middle East and North Africa region have used them to encourage export-led industrialisation. For example, the Shenzen Special Zone has grown from a neglected fishing village to a city of more than 1.5m inhabitants.[2] In Oman, their history goes back more than four decades. The earliest industrial estate, Rusayl, was launched in 1983. Knowledge Oasis, the first Special Zone based on Sultani Decree No 56/2002 promulgating the Free Zones Law, was founded in 2003. It now hosts more than 200 domestic, regional and global companies, institutions and organisations. Oman has three distinct categories of Special Zones:

Special Economic Zones (SEZs): In Oman, SEZs offer a comprehensive environment for various economic activities, including industrial, commercial, residential, and recreational services. They provide greater flexibility, autonomy, and a broader range of incentives compared to Free Trade Zones. Oman currently has SEZAD, the Special Economic Zone at Duqm.

Free Trade Zones (FTZs): These zones house businesses focusing on foreign markets, offering specific regulations and incentives. FTZs in Oman facilitate international trade with economic benefits and bonded regime conditions, ideal for companies prioritising trade abroad. There are three FTZs in Oman: Sohar in the north, Salalah in the south, and Al Mazunah near the Yemen border.

Industrial Cities (ICs): Targeting local and GCC markets, ICs in Oman benefit from free trade agreements within the GCC. Products manufactured in these cities are exempt from customs tax in GCC countries, aimed at encouraging local and regional trade. Currently, there are two ICs: Khazaen Economic City and the Madayn industrial estates.

All of these are administered by the Public Authority for Special Economic Zones and Free Zones (OPAZ), established in August 2020 to supervise, regulate and enable the development of all current and future FTZs, SEZs and ICs in Oman. OPAZ works alongside other Government agencies and the private sector to facilitate Government initiatives. For example, the National Logistics Strategy[3] which is aimed at improving supply chain performance and attracting global investments. What role do the Special Zones administered by OPAZ play in helping Oman achieve the targets of Vision 2040?

Attracting investment

Each type of zone supports different aspects of economic development and trade in Oman, offering distinct benefits and regulations tailored to their target markets.[4] Examples include the following:

Location	Type	Size (km^2)	Specialism
Al Mazunah	SEZ	4.5 km^2	General commerce including both industries and services
Duqm	SEZ	2000 km^2	Logistics focus, but also features education, tourism, fisheries, a port and supporting facilities
Khazaen	IC	52 km^2	Logistics, warehousing, and light industries including cold storage and e-commerce
Knowledge City	IC	1 km^2	Higher education
Madayn	IC	100 km^2	Manufacturing, logistics, and technology-driven industries
Salalah	FTZ	21 km^2	Food, chemicals, renewable energy, and pharmaceuticals
Sohar	FTZ	45 km^2	Chemicals and materials processing, petrochemicals, manufacturing, automotive, and textiles

Compared to FTZs in other countries, such as in China, Oman's Special Zone taxation regime is exceptionally generous. Tax holidays for new investors are available for up to 10 years from the national 15% corporate tax rate. The Special Zones are also exempt from VAT, there are no duties on imports and re-exports and, in common with all of Oman, there is no income tax for employees. Foreign ownership of 100% is permitted, lease periods can extend up to 30 years, renewable for a similar period in many cases, special visa rules apply in individual locations, and capital requirements are low.

In addition to these benefits, Oman also has a growing pool of skilled human capital and a flourishing education sector. But these benefits are shared with many Special Zones throughout the GCC. Oman is therefore engaged in a competition with its neighbours to attract corporate talent, the outcome of which will, in significant measure, determine the success of Vision 2040.

Oman's four competitive advantages

Not all Special Zones are created equal. While the incentives they offer may appear similar, the economic, infrastructure, real estate and regulatory background that stands behind them casts each of them in a very different light. Each potential entrant into the Gulf market will evaluate these relative advantages differently on the basis of their own objectives, constraints and resources. In doing so, they will recognise that Oman's Special Zones possess several advantages by comparison with comparative heavy-weights such as Saudi Arabia and the UAE.

First, rents are significantly lower in Oman overall, and in Muscat in particular, than in competing Gulf jurisdictions and their capital cities. For example, rents in Knowledge Oasis – located in the centre of Muscat – range from OMR7–9 (US$18–23) per square metre, depending on the level of services,[5] compared to approximately SAR250 (US$67) in central Riyadh and SAR80 (US$21) in regional centres. Moreover, office rents in industrial zones are very low in comparison to more developed commercial areas such as Central Muscat. Given that rents form the second-largest component of costs after salaries for most companies locating in FTZ, this is a huge advantage which is likely to persist for at least a decade.

Second, Muscat's compact size and managed Structure Plan are delivering benefits for transportation and access both at the domestic and international level. Within the country, transport links are efficient by comparison with FTZs and SEZs outside the Gulf and on a par with or exceeding those within it. For example, Knowledge Oasis is only twenty minutes from the airport, and Sofar is now interconnected regionally by Hafeet Rail. Internationally, Oman's geographical situation just outside the Straits of Hormuz is an undoubted benefit.

Third, Oman has a distinctive appeal as a place to live. Safe, clean, and with a cost of living significantly lower than most alternatives, a recent survey put it fourth globally, the leading country outside Europe.[6] As different indicators attest, Muscat is a highly liveable city.[7] In one recent comparison it emerged ahead of even Dubai, again propelled by cost of living considerations as well as easier commutes.[8]

Fourth, this liveability has not come at the expense of economic progress. Oman has sound macroeconomics, with the IMF praising the 'remarkable improvement in its economic fundamentals'. It is certainly correct that both the fiscal and external positions have strengthened significantly; growth is currently projected at 2.3%, inflation at 1.5%, and its regulatory environment is now comparable with Saudi Arabia and not far behind the UAE. Predictably, investor confidence has increased, paving the way for rising private sector investments on top of the OMR19bn achieved by the end of 2023.[9, 10]

Oman is also advancing steadily and noticeably in business indices.[11] The Government has successfully negotiated Free Trade Agreements (FTAs) that complement its FTZs and SEZs. For example, the US–Oman FTA permits 100% ownership for US investors and exempts customs duties on exports to the USA. The FTA with Singapore, admittedly shared throughout the GCC, lowers customs duties and eases market access to Singapore and EFTA countries. Both bolster the appeal of the Special Zones to investors, mutually reinforce each other and pull the Omani economy towards the same specialisation patterns with a boost to the intra-regional supply market.[12]

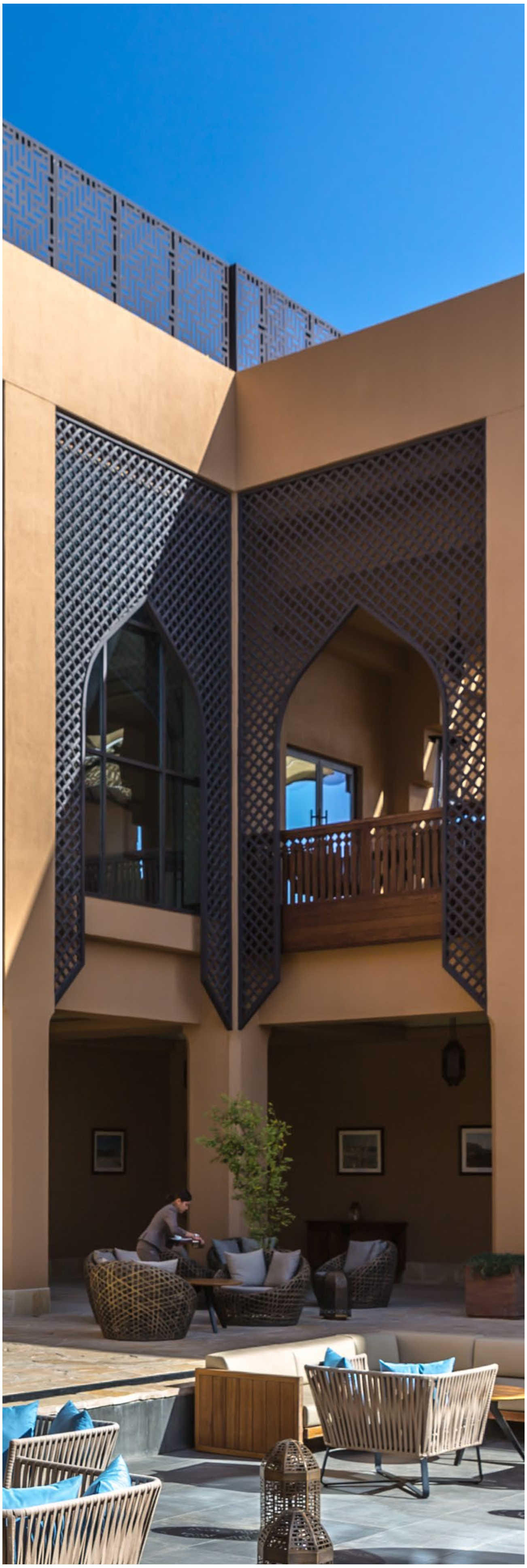
The contribution of Special Zones to Vision 2040

By focusing on diversifying trade and increasing the role of trade in the economy, attracting foreign direct investment (FDI), and promoting partnerships between the public and private sectors, the targets of Oman Vision 2040 and Oman's Five-Year Development Plans are closely aligned with what Special Zones are set up to achieve. The Omani Government is well aware of the substantial correlations between trade flows, FTAs, and GDP and population growth.[13]

In terms of scope, the 10th Five-Year Development Plan includes a project for the creation of a specific SEZ for SMEs.[14] The announcement of the integrated economic zone in Dhahira, the free zone at Muscat International Airport, and the Rawdah economic zone, together with five new industrial cities in Ibri, Mahas, Al Suwaiq, Al Mudhaibi and Thamrait, also demonstrate the commitment of the Government to expanding both programmes.[15]

In terms of procurement, a programme linking Government tenders to Special Zones commenced in 2024, further enhancing their importance.[16] Finally, in terms of regulation and investment opportunities, recent issuance of consolidated, harmonised regulations for the Special Zones included provisions for investor residency and for freehold real estate development,[17] both steps that advisers have recommended in the context of Free Zones elsewhere in the world but which Governments have not always accepted. The IMF believes more should be done, for example by adapting insolvency frameworks tailored to SMEs, and supporting linkages between SMEs and multinational enterprises in SEZs which, it argues, could help maximise long-term gains to SMEs and the broader economy.[18] Policy measures take time and must be balanced against competing objectives, but this shows scope still exists for regulatory improvement.

The actual contribution of Special Zones can be seen in the annual reports charting progress towards Vision 2040 targets and their own reporting. The 10th Five-Year Development Plan (2021–2025) set an ambitious target to create 135,000 direct jobs. The Special Zones have played their part. The area covered by the industrial cities has increased by more than 20% since 2020, and it has been claimed that the SEZ at Duqm and Sohar alone have contributed more than 6% of GDP.[19] Over the same period, the 2,012 manufacturing establishments currently operating in Special Zones have combined with individual projects, such as the refinery and green hydrogen plant at SEZAD Duqm and commencement of work on the wind turbine there, and the port expansion at Salalah and Sohar, to create in the order of 20,000+ new jobs in direct employment. Estimates of this magnitude align with international job creation evidence[20] and demonstrate progress in accordance with targets set in 2021 for the Special Zones set in Madayn's own Vision 2040.[21]



While special economic zones, free zones, and industrial cities act as key economic engines for cities across the GCC, there is a broader regional vision to integrate these hubs through enhanced cooperation among member states. This includes the development of interconnected economic corridors linking major ports, industrial areas, and special zones via road and rail networks. These corridors aim to reduce logistics costs, shorten transit times for goods, and provide alternative inland routes that avoid high-risk international maritime zones, thereby ensuring more secure and efficient trade flows across the region.

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Admittedly, these targets and the results have benefitted from post-Covid recovery. Nonetheless, the contribution is both significant and impressive. To this total should be added the indirect and induced jobs created through the multiplier effect. Although these may be limited by the remoteness of some of the Special Zones, the numbers are still likely to be in the thousands. Many of these jobs, such as at OQ8 at SEZAD Duqm, have been generated through FDI, meaning that the Special Zones have had a much greater impact in achieving the Vision 2040 Goals. Vision 2040 also recognises the importance of developing local capital markets, which the IMF has also emphasised.[22] There is evidence of continued progress and there has been no let-up in the pace of change. For example, there has been the launch of new industrial cities, further stages in renewable energy production at SEZAD Duqm and the development of a cold chain economic cluster there with regional scope, and even the first dedicated space Economic Zone.[23]

Conclusions

It would not be an overstatement to say that Oman Vision 2040 requires the continued success of the Special Zones in order to achieve key economic targets. Fortunately, the Omani Special Zones are already first-rate, internationally competitive Gulf investment destinations. Moreover, their full potential has not yet been reached: not only in job creation, but also in their ability to attract capital, generate synergies, and provide livelihoods for both Omani nationals and expatriates. In that respect, the recent decision by the Omani Government to permit freehold residential development within Special Zones is of particular long-term significance.

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