كلية الدراسات المصرفية والمالية
College of Banking and Financial Studies

THE ROLE OF FDI IN ENHANCING OMAN'S DIVERSIFICATION STRATEGY

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Postgraduate Studies and Research Department
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ABSTRACT

There is a consensus among the international organizations, such as the International Monetary Fund (IMF, 2015) and the World Bank (WB, 2016) that diversifying sources of income and reducing reliance on oil revenues is the strategic solution that would help the GCC countries to overcome fluctuation of financial resources. Given its application to Oman, the Sultanate is preemptive in realizing the importance of expanding sources of income. As a result, Oman continues to exert serious efforts in diversifying its economy. To this end, various priority themes including the development of the manufacturing sector, fisheries, tourism, infrastructure, the services and SMEs sector as well as human resource development have been resorted to. Moreover, given that the vision 2020 anticipates significant structural changes in the economy, forecast of a net increase in non-oil GDP to increase to 81% in 2020 is envisaged. However, the pursuit of above objectives can pose its fair share of challenges while threatening to impact economic growth. To this need, suitable and sustainable factors need to be focused upon. Among the major factors in the relevance and contribution of Foreign Direct Investment (FDI). Economic growth history as well as scholarship pivots to the significance of FDI for economic growth and income diversification. The current study will highlight the importance of the same for Omani ambitions and empirically estimates the Institutional factors influencing FDI to cater of economic growth.

Keywords: *Oman, Economic Diversification, FDI, Institutional factors, Business Freedom, GDP per capita, Inflation, Trade freedom, Property rights, Corruption freedom, Fiscal freedom.*

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I. Introduction

The heavy reliance of countries on one source of income imposes many risks, and as a result diversification strategy was proposed (Shayah, 2015; Soofi et al. 2017) . The Gulf Cooperation Council (GCC) is the classical example for the countries that are heavily sustaining on one source of income which is the oil. The volatility of oil prices rendered these economies to great risks. According to IMF predictions in 2015, the losses due to oil exports are expected to touch $300bn or 21% of GDP in the Gulf and the proposed hike in US interest rates is likely to have an alarming effect on the financial conditions in the GCC.

Among the GCC countries, Oman is considered one of the poorly diversified economies, as a very large part of its GDP depends on the production and sale of oil to other countries. According to statistics, Oil constitutes 33.9% of Oman's GDP, about 79% of the government revenues, and 52.1 % of the merchandise exports (NCSI, 2016). With the likely depletion of oil resources, and volatility of its prices, the economy of Oman is always in a great risk.

The mitigate the risk of the high dependence of Oman economy on oil, the government has initiated many plans reflected in Oman 2020 and 2040 strategy. For example, Oman 2020 strategy aimed to reduce the dependency on oil exports from the current 37.2% of GDP to 9% by 2020. [1] However, with the current decline of oil prices, Oman economy prospects will be affected and efforts of the government toward diversification will be extremely constrained, unless the government seek other sources of finance. One will option is the foreign direct investment (FDI).

1.1 Objectives

[1] See http://globalriskinsights.com/2015/02/oman-path-towards-economic-diversification/.

The aim of this study is to explore the opportunities that FDI can play in enhancing and realizing the economic diversification strategy of Oman. Specifically, the study aims to achieve the following objectives

1) To assess the impact of FDI in Oman's economic diversification strategy
2) To identify the factors influencing FDI flows to Oman
3) To Examine the challenges of FDI flows to Oman

1.2 Research Questions

To stimulate discussion, the study poses the following questions

1) What are the challenges facing the realization of the economic diversification strategy of Oman, in the light of the current decline of oil prices
2) To what extent FDI can contribute to enhancing the economic diversification strategy in Oman.
3) What are motivating factors for FDI flows in Oman?

1.3 Research hypotheses

The study attempts to validate two basic hypotheses as follows;

H_1: FDI contributes positively in enhancing the economic diversification strategy of Oman

H_2: A favorable business environment in Oman, among the factors that can attract more FDI to the country.

1.4 Research structure

The study was structured in five chapters: Chapter one is a general frame, stating the research problem, objectives and the hypotheses. Chapter two is literature review. Chapter three is methodology. Chapter four is data analysis. Chapter five is conclusion.

1.5 Limitation

The study adopted a quantitative modeling approach to assess the determinants of FDI flows in Oman, and implication of that on enhancing Oman economic diversification strategy. For that effect, the study relied on secondary sources. Primary sources such as focus group discussion or interviews could have been used to provide more in-depth to the study.

II. Literature Review

2.1 Oman Diversification Strategy

Due to the high dependence of Oman economy on oil and the huge economic and social consequences of that, government initiated many plans to rectify that situation. For example, Oman 2020 strategy aimed to reduce the dependency on oil exports from the current 37.2% of GDP to 9% by 2020[2]. Therefore the government has taken strategic steps by introducing programmes focusing on developing the skills needed to succeed in an increasingly competitive job market. While stressing the need for economic diversification, his Majesty Sultan Qaboos bin Said approved the Royal decree addressing the issue, given the directives to diversify the economy. For the implementation, the National Programme for Enhancing Economic Diversification has formed working groups to focus on the targeted sectors (Royal Decree (1/2016)) selected as priorities in the economic diversification strategy, namely tourism, manufacturing, and logistics, finance, and the labour market and employment, fisheries and mining sectors. Another strategic step taken by the government to enhance diversification is Tanfeedh , national initiative which is a part of the 9th Five-Year Development Plan (2016-2020) launched in collaboration with the Malaysian government's "Performance Management and Delivery Unit (PEMANDU)" in order to build upon the achievements of the previous plans, concentrating the targeted sectors. This will help the government to monitor the contribution of these sectors on Gross Domestic Product (GDP), investment in these sectors, and creating more job opportunities.[3]

[2] See http://globalriskinsights.com/2015/02/oman-path-towards-economic-diversification/.
[3] See http://timesofoman.com/article/92336/Oman/Government/Oman's-economic-diversification-plan-Tanfeedh-starts-today.

Instead of depending on the government for creating employment opportunities, the government should develop plans to encourage the youth to venture into entrepreneurship. Antoine Mansour(2011) recommended that government should improve business environment, enhance and promote entrepreneurship at all levels of the education system and vocational schools, in order to provide youth Omanis with the motivation and entrepreneurial skills to start a business instead of looking for a secure employment in the public sector. [4]Many Gulf Corporation Council countries like Kuwait, Oman and the U.A.E still maintain systematic screening, prior approval or licensing on foreign investment projects making it very difficult to invest in these countries (MENA-OECD,2011)

Soofi Asra et.,al (2017) stated that 80% of the Oman's economy is from Oil .In view of the depletion of the oil prices and its effect on the economy, the study recommended that the Oman's revenue can be increased by economic diversification like promoting industrial sector, market for non-oil products and marketing of tourism. While pursuing a range of initiatives to diversify the economy, the government concentrates on infrastructure investment and also puts in efforts to develop small medium sized enterprises.[5]

The drivers of economic diversification in Oman with the downward pressure of oil prices are hydrocarbons, growth of non-oil economy mainly the tourism sector, steady increase of credit issuance by banks and increase in the port traffic[6].

A similar study conducted by Chris et.al. (2015) to identify the reasons to improve stable and feasible economic growth in Nigeria, it was concluded that there is a need to change the economic policies to diversify the economy. The study also revealed that negligence in the field of agriculture resulted in the constant depreciation in Gross Domestic Product (GDP) of the country

[4] See http://www.oea-oman.org/03-Mansouier.pdf.

[5] See https://www.oxfordbusinessgroup.com/overview/renewed-efforts-oil-revenues-shrink-government-seeking-further-diversify-economy-boost-employment.

[6] See http://www.oxfordbusinessgroup.com/whats-driving-economic-diversification-oman.

and hence was very much necessary for diversification of the Nigerian economy. According to Shayah, H.M (2015),

2.2 Role of FDI in enhancing Oman's diversification strategy

Foreign direct investment (FDI), can play a pivotal role in supporting and success of Oman diversification strategy. With the limited resources of Oman, FDI can play active role in supplementing domestic savings, employment generation and growth, integration into the global economy, transfer of modern technologies, enhancement of efficiency, and raising skills of local manpower (Dupasquier and Osakwe, 2003; Anyanwu, 2006 ; Quazi, 2007).

A central question is what determines FDI inflows to Oman? An understanding of such factors will assist Oman policymakers to formulate and execute policies for attracting FDI, and hence facilitating the diversification strategy.

2.3 Determinant of the FDI flows

The theoretical framework of FDI determinant s in this study was based on "eclectic paradigm" attributed to Dunning (1977, 1993). The framework postulates that firms invest abroad for three advantages: Ownership (O), Location (L), and Internalization (I) advantages; hence it is called the OLI framework. The ownership-specific advantages are related to property rights/patents, expertise and other intangible assets. The location advantages are those related to labor advantages, natural resources, trade barriers i.e which make attractive for foreign investors. Internalization advantages arise from exploiting imperfections in external markets, including reduction of uncertainty and transaction costs in order to generate knowledge more efficiently as well as the reduction of state-generated imperfections such as tariffs, foreign exchange controls, and subsidies. Based on these, Dunning (1993) identified four categories of motives for FDI: resource seeking (to access raw materials, labor force, and physical infrastructure resources), market seeking (horizontal strategy to access the host-country domestic market), efficiency seeking (vertical strategy to take advantage of lower labor costs, especially in developing countries), and

strategic-asset seeking (to access research and development, innovation, and advanced technology) (Cleeve, 2008).

Empirically, a vast literature tried to investigate what are the main derivers of FDI flow to the recipient countries. A study of Sánchez-Martín, de Arceand Escribano (2014) explored the main factors influencing FDI in Latin America over the period 1990–2010, indicated that trade openness, low short-term debt levels and balance of payments deficit, government stability and low expropriation risk are main drivers behind FDI flows to Latin America . Omanwa (2013) investigated the FDI flows to the Kenyan economy during the period 1996–2009, found that market size and openness are the key factors. The study of Khondoker and Kalirajan (2010) examining FDI determinants in 68 low-income and lower-middle-income developing countries concluded that GDP and GDP growth rate, trade and a friendly business environment are main derivers for FDI in these countries. Similarly, Asiedu (2006) investigated factors affecting FDI in a panel data for 22 countries over the period 1984–2000 has shown that natural resources, large markets, lower inflation, good infrastructure, an educated population, openness to FDI, less corruption, political stability and a reliable legal system all promote FDI.

The flow of FDI in MENA region as studied by Mohamed and Sidiropoulos (2010) using panel data over the period 1975–2006, concluded that the size of the host economy, the government size, natural resources and the institutional variables are key derivers of FDI to the MENA region. Also, Kamaly (2002) in a dynamic panel model covering the period 1990–1999, showed that only the economic growth and the lagged value of FDI/GDP are significant determinants of FDI flows to the MENA region.

Muhammad and Mohammad (2012) showed that FDI in Pakistan is influenced by financial development, imports and economic growth, whereas. This in contrast to the study conducted by Naeem and Azam (2005) exploring FDI in Pakistan during the period 1970–2000 found that market size, domestic investment, degree of openness, indirect taxes, inflation and external debt are key factors. Similiarly, Azam and Lukman (2008), using time deries data from 1971 to 2005, indicated that FDI inflow into Pakistan, India and Indonesia were driven by market size, external debt, domestic investment, openness, and infrastructure are key determinants of FDI.

In a panel data covering the period 1995–2000, Quazi and Mahmud (2004) indicated that economic freedom, degree of openness, economic prosperity and human capital affect FDI positively in South Asia: Bangladesh, India, Nepal, Pakistan and Sri Lanka, while political instability affect it negatively. The negative role of political instability was also confirmed by Swain and Wang (1997) and Liu et al. (1997) when studying FDI in China.

With regard to the role of exchange rate on FDI, while Blonigen and Feenstra (1996) and Ang (2008) found a negative relationship between a country's exchange rate and FDI, Edwards (1990) and Hasan (2007) found a positive correlation.

2.4 Main FDI Driving factors in Oman

With regard to Oman context, there are very few empirical studies related to the driving forces for FDI in Oman. Al Shubiri (2016) investigating the flows of FDI in Oman during the period 2005-2014, using two models, found that GDP annual growth, ratio of fiscal balance to GDP, investment expenditure as a ratio of GDP, income velocity of broad money, and trade balance as a percentage of GDP, number of shares traded, and MSM 30 share price index are the key factors attracting FDI in Oman. Similarly, Ibrahim and Sufian (2015) examined the motives and determinants of foreign direct investment (FDI) in Oman during the period 1980–2013, using Cointegration and vector error correction model (VECM) approach, concluded that FDI flows in Oman are positively influenced by the market size and natural resources, and negatively by inflation rate and degree of openness. Moreover, Granger causality results show that there is a unidirectional causality running from each of the market size and natural resources to FDI, indicating that flows of FDI into Oman are characterized by market-seeking and resource-seeking motives.

III. Methodology

3.1 Research Design

In econometric modeling, there are two major designs: cross sectional and longitudinal. Cross sectional explores relationship among different variables at a given point of time. Longitudinal

design, on the other hand explores the relationship over a long period of time. This study adopted the latter one. It attempts to estimate the determinant of the FDI for Oman over the period 2000-2017. Many variables such as inflation, market size, and institutional factors were examined to assess their impact of the FDI flows in Oman, using a Vector Autoregressive Model (VAR) and its variants.

One problems of the VAR models is that when it is applied to time series data that are not stationary generated the problem of spurious relationship. Hence, any inference based on that will be in valid. To overcome that problem, Econometricians proposed two solutions: use a VAR on first difference or using Vector Error Correction Model (VECM). The latter is preferred as it provides the long relationship and produces efficient coefficient estimates (Rasche, Hoffman (1996).

The process of estimating a VECM involves the following steps:

Satisfying the conditions that: $E(\mu_t)=0$; $E(\mu_t \mu_t') = \sum_n$ and $E(\mu_t \mu_{t-k}')= 0$

Step1: Test for stationarity of the series, before conducting cointegration analysis. The augmented Dickey-Fuller (ADF) unit root test is used as following:

$$\Delta Y_t = \alpha_0 + \gamma Y_{t-1} + \alpha_2 t + \sum_{i=1}^{\rho} \beta_i \Delta Y_{t-1} + \varepsilon_t .$$

The null hypothesis is (H0): $\gamma=1$(unit root), versus the alternative (H1): $\gamma< 1$

Step2: specify and estimate a VAR model for the integrated multivariate time series. A pth-order VAR is defined as:

$$z_t = A^{-1} B_1 z_{t-1} + A^{-1} B_2 z_{t-2} + \ldots + A^{-1} B_p z_{t-p} + A^{-1} u_t$$

Checks for serial correlation, heteroscedasticity and normality will be conducted for the residuals.

Step3: Determine the optimum lag length using Akaike information criterion (AIC), or Schwarz criterion (SIC), Hannan-Quinn criterion (HQC).

Step4: Apply Johansen's (1988) co integration test and also Johansen and Juselius (1990) full information maximum likelihood of a vector error-correction model (VECM). The model is given as follows:

$$\Delta y_t = \Pi y_{t-1} + \sum_{i=1}^{k-1} \Gamma_i \Delta y_{t-i} + \mu + \varepsilon_t,$$

where yt is a (n × 1) vector of the n variables, m is a (n × 1) vector of constants, Γ represents a (n × (k-1)) matrix of short-run coefficients, εt denotes a (n × 1) vector of white noise residuals, and Π is a (n × n) coefficient matrix. If the matrix Π has reduced rank (0 < r < n), it can be split into a (n × r) matrix of loading coefficients α, and a (n × r) matrix of co-integrating vectors β. The former indicates the importance of the co-integration relationships in the individual equations of the system and of the speed of adjustment to disequilibrium, while the latter represents the long-term equilibrium relationship, so that $\Pi = \alpha\beta'$. k is number of lags, t denotes time, and Δ is a difference operator..

3.2 Causality test

To capture the short-term deviations of series from their long-term equilibrium path, Granger causality requires inclusion of an error term in the stationary model (Granger 1986).

$$\Delta y_t = \alpha_1 + \alpha_y (y_{t-1} - \beta z_{t-1}) + \sum_{i-1}^{p} a_{11}^{(i)} \Delta y_{t-i} + \sum_{i-1}^{q} a_{12}^{(i)} \Delta z_{t-i} + \varepsilon_{yt},$$

The terms in parentheses are the error-correction terms (ECTs).

Zt is said not to Granger-cause Yt if for all h > 0

$$F(Y_{t+h}|\Omega_t) = F(y_{t+h}|\Omega_t - z_t)$$

where F describes the conditional distribution and $\Omega - zt$ is all the information in the universe except series zt. In other words, zt is said to not Granger-cause Yt if z cannot help predict future Y.

3.3 The Econometric Model

As the objective of this paper is to explore the motives and determinants of FDI in Oman, an econometric approach has been adopted. The following model will be estimated:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_7 +$$

Where

FDI_t = FDI flows in millions OMR.
X1 = is the market size proxied by GDP per capita
X2 = Inflation rate
X3 = Property right index
X4 = Corruption freedom index
X5 = Fiscal freedom index
X6 = Trade freedom index
X7 = Business freedom

The data for FDI, GDP per capita and inflation are compiled from the National Center for Statistics and Information (NCSI) in Oman, while the rest of the data are collected from IMF and World Bank macroeconomic index as well as PEW survey and Central Bank of Oman date base.

IV. Data analysis and discussion

4.1 Trends of FDI flows

The flows of FDI in Oman have shown an upward trend during the period 2003-2017, with a compound annual growth rate (CAGR) of 16.6%. During the first years from 2003-2006 FDI have shown steady increase, from RO 929.4 million in 2003 to RO 1855.4 million 2006. Between 2007 and 2014 the FDI flows have risen fast, however, in 2015 it suddenly dropped to RO 6673.8 million from RO 7555.6 million in 2014, before it picked up afterwards to register RO

66738013.2 million in the 2017 (NCSI, 2017). Figure 1 shows the trends in FDI flows in Oman during the period 2003-2017.

Figure 1: FDI flows in Oman during the period 2003-2017

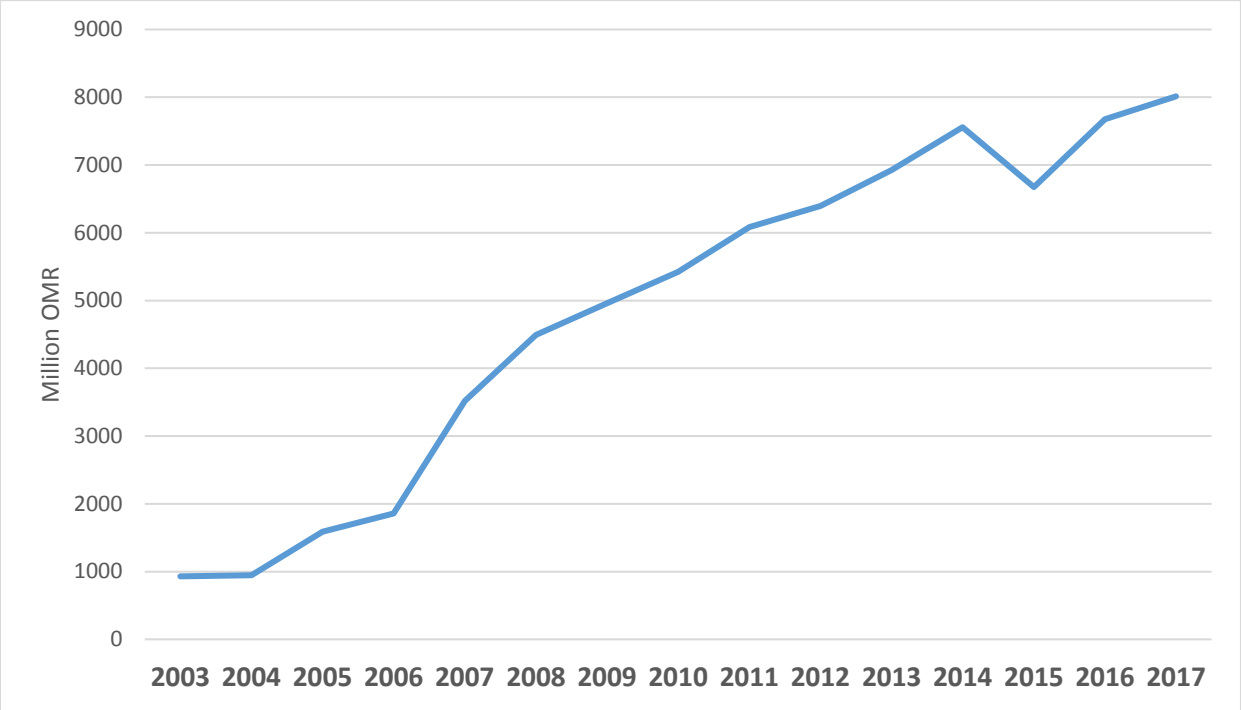

Table 4.0: Distribution of the FDI flows by sectors

Sector	FDI (million OMR)	%
Oil and Gas Exploration	2981.7	44.68
Financial Intermediation	1191.4	17.85
Manufacturing	1039.3	15.57
Real Estate-Renting & Business Activities	536.0	8.03
Trade	261.5	3.92
Transport-Storage and Communications	256.9	3.85
Construction	110.9	1.66
Hotels and Restaurants	161.1	2.42

Electricity and water	67.1	1.00
Other	67.9	1.02
Total	6673.8	100.00

Figure 2:

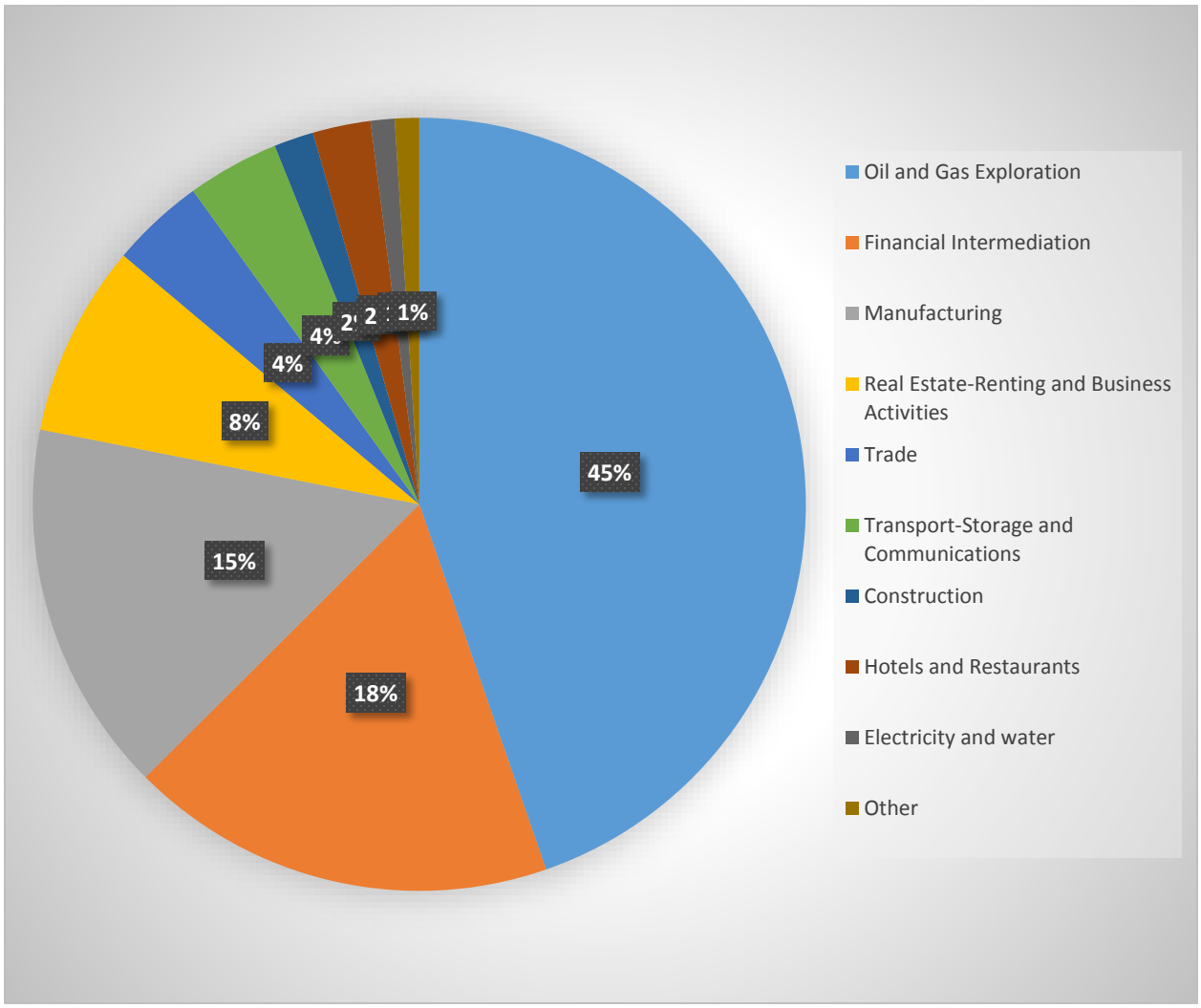

Figure 2 indicates that the Oil and Gas exploration sector receives the highest foreign direct investment

4.1 Descriptive Analysis of the FDI Model variables

The descriptive statistics for the above variables, in addition to the data of the FDI are given in table 4.1 below

Table 4.1 Descriptive Statistics for the FDI determinants

	N	Minimum	Maximum	Mean	Std. Deviation
Property rights	20	55	70	65.00	3.83
Corruption freedom	20	23	70	59.71	12.55
Fiscal freedom	20	75	99	93.46	9.04
Inflation	20	-1.20	12.60	2.23	3.13
Business freedom	20	56	85	69.44	8.22
Trade freedom	20	58	84	76.95	6.53
FDI	15	929.4	8013.2	4869.0	2525.7
GDP per caipta	18	2353.0	8168.0	5455.2	2194.7
Valid N (listwise)	13				

As can be seen from table 4.1, with the exception of the data of the inflation, FDI, and GDP per capita, the remaining data exhibited low variations as shown by the standard deviation indicator.

4.2 FDI determinants Econometric Model

As the objective of this paper is to explore the motives and determinants of FDI in Oman, an econometric approach has been adopted. Based on the literature review, the study considered the following variables as determinants of the FDI flows to Oman.

1) The Market size determined by the GDP per caipta

2) The inflation rate
3) Property rights index
4) Corruption freedom
5) Fiscal freedom
6) Trade freedom
7) Business freedom

The following model will be estimated:

$FDI_t = f(MZ_t , INF_t , Propright_t , Corupfrdm_t , Fiscalfrdm_t , Tradfrdm_t , Busfrdm_t)$

Where FDI refers to foreign direct investment flows in RO millions; MZ the Market Size measured by GDP per capita, INF is a measure of inflation based on Consumer price index; Propright is a measure of property rights index; Corupfrdm is a measure of corruption freedom; Fiscalfrdm is a measure of fiscal freedom; Tradfrdm is a measure of trade freedom; and Busfrdm is a measure of easiness of doing business .

4.3 Estimation of the FDI Model

Table 4.2 Model coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	-8672.156	6743.208		-1.286	.255
	Business Freedom	-42.188	55.641	-.098	-.758	.483
	GDP per capita	.913	.198	.637	4.602	.006
	Inflation	-275.587	105.486	-.381	-2.613	.048
	Trade freedom	80.645	29.316	.265	2.751	.040
	Property rights	-53.861	52.958	-.107	-1.017	.356
	Corruption freedom	-105.437	36.067	-.547	-2.923	.033
	Fiscal freedom	142.297	72.158	.295	1.972	.106

a. Dependent Variable: fdi

Table 4.2 shows that Business Freedom, Property rights and Fiscal freedom are insignificant. The P value (sig.) 0.006 indicates a unit increase in GDP per capita will result in 0.913 unit increase in FDI whereas unit change in inflation indicates a 275.5 decrease in FDI with P value (sig) 0.048.The P-value (sig.) of Trade freedom 0.040 reports a change in one unit of trade freedom will increase the FDI by 80.64 units. A unit change in the Corruption freedom decreases the FDI by 105.437 units with the P value (sig.) of 0.33.

Table 4.3 Analysis of Variance (ANOVA)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	67416779.252	7	9630968.465	34.093	.001[b]
	Residual	1412455.265	5	282491.053		
	Total	68829234.517	12			

a. Dependent Variable: fdi

b. Predictors: (Constant), fiscal, inflationsec, percap, tradfrdm, prprty, bsnessfrdm, Corrfrdm

As can be seen from Table 4.3 it can be observed that the overall model is significant indicating 34.093 as the F-value with P-value (sig) 0.001.

Table 4.4 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.990[a]	.980	.939	592.66536

a. Predictors: (Constant), govspnd, bsnessfrdm, tradfrdm, prprty, percap, inflationsec, fiscal, Corrfrdm

Table 4.4 shows the R^2 value as 0.998 indicating 98% variation of FDI explained by the 7 variables viz., Business Freedom, GDP per capita, Inflation, Trade freedom, Property rights, Corruption freedom, Fiscal freedom

Discussion: The results of the study revealed that GDP per capita,inflation trade freedom and corruption freedom have an significant influence on FDI whereas Business Freedom, Property rights and Fiscal freedom has insignificant influence on FDI . The study conducted by khondoker and Kalirajan(2010) confirms the results that GDP is one of the determinants of Foreign Direct Investment along with trade and friendly business climate whereas Asiedu(2006) on investigating the factors influencing FDI reported that lower inflation ,less corruption and less corruption are the main drivers promoting Foreign Direct Investment. Further Ibrahim and Sufian (2015)in their study revealed the negative influence by inflation rate which is confirmed in this study.

Even though the results of the study revealed Business Freedom, Property rights and Fiscal freedom has insignificant influence on FDI, Dunning (1977,1993) confirms that Business freedom and property rights are the determinants of FDI .Although Mohammed Shakib Hossain (2016) proved that business freedom, trade freedom, size, investment freedom, property rights, freedom from corruption, labor freedom, financial freedom, fiscal freedom, monetary freedom increases FDI which supports the results in our study that overall the model is significant with the influence of the seven variables selected in the study. Hence it is important not only to create an attractive environment for the FDI, it is also important to have clear policies that aim at channeling this FDI towards sectors that increase welfare and foster economic growth. Also it is very important to create transparent and clean legal systems to protect the property rights, better governance, improved infrastructure, develop a well planned investment climate and liberalized labor market.

V. Conclusion and Recommendations

5.1 Main findings

1) The flows of FDI in Oman have shown an upward trend during the period 2003-2017, with a compound annual growth rate (CAGR) of 16.6%.
2) The Oil and Gas Exploration sector attracts the highest foreign direct investment with a share of almost 45%, followed by the Financial Intermediation (18%), and the manufacturing sector (16%).

3) The most important factoring motivating FDI in Oman are the market size measured by the GDP per capita, inflation rate, corruption index variable, and freedom of trade index.
4) Inflation rate and the corruption freedom index are negatively influencing the flows of FDI. In other words, the less the inflation rate, and the less of the extent of the corruption in the country, the more is the flows of FDI.
5) GDP per capita and Trade freedom are positively influencing the flows of FDI to Oman, indicating that the large is the market size and the more freedom of trade, the more is the flows of FDI to Oman.

Given the above results, policymakers in Oman should work to create an enabling environment that attracts FDI through undertaking good macroeconomic policies and providing preferential incentives particularly to investment projects that greatly contribute to the realization of the diversification strategy of the country.

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