Distinguished Keynote Paper:
How Oman can leverage China’s OBOR to achieve Diversification –
Gaining more with less

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ABSTRACT
An increasingly unstable and fractious world is battered with lethargic growth rates, collapsing energy prices, unsettling geopolitical dynamics, and rising anti-globalization sentiments even before Brexit. Yet the world is never more inter-connected and inter-dependent, spawning a Fourth Industrial Revolution of cyber and physical connectivity. For Oman, a narrow focus on oil and other commodities no longer works. In any case, Oman’s oil reserve is among the lowest among Arab states while economic diversification is hampered by inadequate resources for R & D. The Oman 2020 vision emphasizes knowledge-based industries, human capital development, private-sector-driven initiatives, socio-economic advancement, healthcare, foreign direct investment, youth employment, e-commerce and services, and streamlined bureaucracy. Yet, most, if not all of these aims can be supported by leveraging China’s One Belt, One Road (OBOR) initiative, backed by the Asia Infrastructure Investment Bank, the Silk Road, and the BRICS New Development Bank. As a bridge between Asia and the Gulf Cooperation Council states, Oman can grow into a regional refinery hub, develop its potential in solar and wind energies, link with the China-Pakistan Economic Corridor, transform into a regional financial center for RMB-denominated trade and Islamic finance, enhance internationally-competitive linkage industries such as drilling rigs, engineering management, and construction materials, become a telecom hub for the Gulf, create employment-rich special economic zones, and build close connections with China’s higher educational institutions, tourism and burgeoning creative industries.

Keywords: Oil curse, Diversification, Belt and Road, Connectivity, Fourth Industrial Revolution, linkage industries

1. Introduction: An increasingly connected but uncertain world

Seven or eight years after the last Financial Crisis, the world still remains mired in slow or negative growth. Across the world, various established economies are aging. There seem to be no better instruments for enhancing productivity than financial stimulus, “quantitative easing”, or money-printing by any name (1). Energy prices have collapsed with global over-supply and dwindling demand from a slowing and economically-restructuring China and a world becoming more energy efficient and environmentally-conscious. As former Saudi oil minister Sheikh Armani predicted in 2000, like the Age of Stone, the Age of Oil may draw to a close, not because of a lack of oil. (2)

Meanwhile, geopolitical rivalry is intensifying in the South China Sea. The Middle East remains a theatre for Sunni-Shiite contest, ethnic strife, nationalistic conflicts, religious fundamentalism and terrorism, and a tug of war with a resurgent Russia. At the same time, rising anti-globalization sentiments are emerging on both sides of the Atlantic. With tectonic impact of Brexit on an already-fragile European Union, the world has seldom looked more uncertain and precarious since the Second World War.

Yet the globe is even more inter-connected, inter-dependent, and “flatter” since Thomas Friedman’s first well-coined description (3). We are witnessing a Fourth Industrial Revolution (4) of artificial intelligence, robotics, cybernetics, the Internet of Things, autonomous vehicles, 3-D printing, nanotechnology, biotechnology, materials science, energy storage, and quantum computing. There is much greater awareness of ecological connectivity and sustainability, and the importance of well-being rather than simple growth. Physically, too, the world is more mobile and inter-linked across geographical boundaries, not only through the internet but also through expressways, high-speed rail, and aviation networks, what Parag Khanna calls “Connectography” (5). Clearly no amount of navel-gazing nationalism or xenophobia is likely to change the connectivity of the 21st century.
2. Energy over-dependence

Oman is the largest oil and natural gas producer in the Middle East outside the Organization of the Petroleum Exporting Countries (OPEC). According to the *Oil & Gas Journal*, with 5.3 billion barrels of estimated proved oil reserves as of January 2016, Oman ranks as the 7th largest proved oil reserve holder in the Middle East and the 22nd largest in the world. With rising production, a growing petrochemical sector and potential resources, Oman is highly dependent on hydrocarbons, similar to other major Gulf oil-producing states. In 2014, the sector represents 84% of government revenues and 47% of gross domestic product, according to the Central Bank of Oman. Nevertheless, Oman’s oil reserve is among the lowest among Arab states, being just slightly more than a third of Qatar’s and about one-seventeenth or eighteenth of the Emirates’, let alone Saudi Arabia’s. Moreover, Oman’s fiscal breakeven price for oil was $108 per barrel in 2014. The International Monetary Fund (IMF) has urged Oman to hasten fiscal reforms to mitigate worsening financial stress and to ward off threats to long-term economic sustainability (6).

2.1 Oman Vision 2020

In response to emerging economic challenges, Oman Vision 2020 (7) is a development plan of diversification, industrialization, tourism, and privatization. It emphasizes knowledge-based industries, human capital development, private-sector-driven initiatives, socio-economic advancement, healthcare, foreign direct investment, youth employment, e-commerce and services, and streamlined bureaucracy.

The Vision is based on Oman’s current economic realities.

Contribution from *industry* to GDP is at 16.6%, playing a significant role in shaping the Sultanate’s economy and generating critical employment opportunities. In 2014, almost 46% of the total Foreign Direct Investments were in the manufacturing sector. Sectors such as *gas-based industries, tourism, banking and finance, healthcare and insurance, agriculture, retailing and aviation* have all along been key components of the government’s diversification strategy.

In 2013, *tourism* contributed 6.4% to Oman’s GDP. This is estimated to jump to 8.2% by 2024 as significantly increased investment in this sector is creating many jobs. In 2005 the government set up Omran, a development company, to manage the tourism sector’s infrastructure.

To hone domestic skills and competences, an Omanisation program has been set up to ensure that expatriate managers adequately train their Omani staff in successful and smooth transition of managerial and operational responsibilities. Similarly, an In-Country Value (ICV) strategy was developed for the energy sector to reduce dependency on external experts and enhance Omani skills and capabilities. 50,000 new Omani jobs are expected to be created, adding $64bn in domestic value-added through 2020. To support SMEs, the Public Authority for Small and Medium-sized Enterprises Development (PASMED) is set up to encourage young entrepreneurs and to provide technical, financial, training, marketing and management support.

To sustain long-term growth and private investments, Oman has been investing heavily in *infrastructure projects* such as roads, airports, seaports, hospitals and health centers. The following are some notable examples.

*Duqm* is strategically located outside the Strait of Hormuz, the sole passageway into the Gulf for 35% of all oil traded by sea. As a pillar project of Vision 2020, Duqm is to be developed with a port and Industrial Zone to create logistical, warehousing, distribution and re-export opportunities with the aim of becoming a hub for heavy, medium and light industries. Duqm port is to possess the Middle East’s second-largest dry dock for repair and maintenance services. The Port of Duqm Company SAOC is a 50:50 joint venture between the Omani Government and the Consortium Antwerp Port (CAP). CAP is supported by Belgium’s Port of Antwerp, one of Europe’s largest hub ports. Under an agreement signed with the Omani government in April 2011, the joint venture has been granted a 28-year concession to co-invest, operate, manage and market the Port of Duqm.
Oman has also started to build a **regional rail network linking Duqm to other ports**, industrial areas and free zones at Sohar and Salalah with a wider Gulf Cooperation Council (GCC) coverage.

There is an accelerated infrastructural **program to boost the supply of power and water** to meet rising demands from growth and development. For example, natural gas supply to the industrial estates in Sohar and Salalah has helped to promote such industries as petrochemicals and bitumen refinery.

Vision 2020 is supported by **tax mitigation measures** including an amendment to the definition of "permanent establishment" in line with free trade agreements entered into by Oman with the Organization for Economic Cooperation and Development (OECD).

Nevertheless, long-term productivity gains under the Vision are by no means guaranteed, due to inadequate **Research & Development**, amongst other things. According to *The Economist*, compared to an OECD average of over 2.25%, Oman’s R&D spending as % of GDP was only some 0.2%. The rates in the UAE, Qatar, Jordan and Kuwait are nearly two to two-and-a-half times higher (up to 0.5%), though Oman’s rate is still much higher than those of Saudi Arabia, Bahrain and Iraq.

Another bottleneck to productivity growth is relative lack of strategic depth in **leveraging a new era of global connectivity**.

### 3. China’s Belt and Road Initiative

This new era is informed by China’s latest One Belt, One Road (OBOR) trans-continental infrastructural initiative (8). This seeks to deepen China’s global centrality by connecting to Asia, Europe, Eurasia and the Middle East, through physical infrastructural investments in ports and pipelines, high-speed rail and expressways, power plants and other utilities, with associated bilateral trade, investments and other spinoffs. The routes along the “Maritime Silk Road” as well as the overland trans-continental “Economic Belt” are loosely defined, as the scope and coverage of investment opportunities.

Projected OBOR investments are estimated to benefit 4.4 billion people in 65 countries representing a third of the world’s GDP (9). The total size, according to some estimates, could exceed twelve times America’s Marshall Plan in aid of post-war Western Europe, in comparable money-of-the-day terms (10).

The “**Maritime Silk Road**” connects China’s east coast to ports including Colombo in Sri Lanka, Gwadar in Pakistan, across the Indian Ocean, through the Red Sea to Greece’s Piraeus, ending in Venice. The overland “**Economic Belt**” connects Venice to Duisburg in Germany, across to Moscow, through Central Asia and West China to end in Xi’an, the ancient capital where the historic Silk Road began.

According to a business report (11), the OBOR initiative will create **six transnational China-centric economic corridors spanning 60 countries**: a “New Eurasian Land Bridge” of freight trains connecting the port of Lianyungang in Jiangsu province to Rotterdam; a Mongolia - Russia Corridor; a Central Asia - West Asia Corridor; an Indochina Peninsula Corridor; a Pakistan Corridor; and a Bangladesh - China - India - Myanmar Corridor.

OBOR is also invoked for China’s infrastructural investments in other parts of Mainland Southeast Asia, North Africa, as well as various countries in Central and Western Europe. While OBOR investments largely follow pre-determined routes, other associated investments are being tagged onto OBOR as **a code word for China’s outbound global strategy**.

OBOR is supported by a $40 billion **Silk Road Fund**, the **BRICS New Development Bank**, and a new China-led **Asia Infrastructural Investment Bank (AIIB)**, which has attracted 57 founding members worldwide, including many Western allies, with more than 20 countries on the waiting list to join as members.

OBOR will reinforce **China’s expanding energy network across Eurasia, Central Asia and the Middle East**, capitalizing on China’s leading role in the Eurasia-centric Shanghai Cooperation Organization (SCO). China is becoming a lynchpin in the Iran-Pakistan (IP) and Turkmenistan-Afghanistan-Pakistan-India (TAPI) gas pipelines. Both are to connect to the China-Pakistan economic corridor, linking Xinjiang (China’s energy base) to the Persian Gulf.
OBOR is also designed to reduce China’s exposure to the “Malacca Dilemma” (12) where the transit of energy, China’s lifeblood, is vulnerable to choke points controlled by the United States’ powerful navies. Additionally, China’s energy diplomacy with Russia and the Middle East suggests a counter-balance against America’s “Pivot to Asia”, including the US-led Trans-Pacific Partnership (TPP) which excludes China.

China’s Initiative comes at a time when there is an estimated shortfall of $57 trillion of infrastructure across the globe, according to a December 2014 Mckinsey analysis (13).

Besides infrastructural investments in ports, high-speed rail, power generation and other utilities, there are ancillary private sector investment opportunities in real estate, telecommunications, e-commerce, financials, tourism, education, creative industries, and green technologies. The last-named informs China’s proactive role in the Paris COP21 Climate Change Agreement and her trajectory in building the world’s largest green bond market (14).

OBOR is not a one-way street of China’s outbound investments. There is also huge export potential for foreign products, technologies and services to China.

China’s 13th Five Year Plan (2016-20) aims to double 2010 income levels by 2020 as the country is set for economic transformation, from exports towards services and domestic consumption, from labour and energy-intensive manufacturing towards innovative, higher-technology and higher value-added production, and from quantity to quality and ecological sustainability.

Based on interviews with 10,000 consumers in 44 cities, a Mckinsey Report (15) finds that, despite current economic downturn, Chinese consumers remain confident within and outside China, barring some exceptions. There are distinctive shifts in consumer preferences from products to services, from mass products to premium brands, from consumer goods to lifestyle and well-being, from Online to O2O (Online-to-Offline), from in-store shopping to ancillary on-site leisure experiences in restaurants and cinemas, and from individual shopping to joint family activities. China is already the world’s largest e-tailing marketplace. According to Nielsen, a global market research company, there is massive untapped potential for global businesses (16).

All these opportunities are concurrent with rapid internationalization of the renminbi, including currency swaps, trade-financing deals, and off-shore bond issuance. The Chinese currency has been included in IMF’s elite basket of reserve currencies (17). Many banks and financial institutions across the globe are salivating for a greater slice of the action.

With a privileged relationship with Mainland China under One Country, Two Systems, including a world-respected legal system and independent judiciary, Hong Kong, as a leading international financial centre and a regional business hub, is well endowed to capitalize on the OBOR initiative. Opportunities include the provision of financial, management, legal, arbitration and other professional services. There is a wealth of ideas in Hong Kong Chief Executive’s 2016 Policy Address (18).

Naturally, OBOR is not paved with gold. There is no lack of risks, pitfalls and uncertainties, as in any new business realm.

For example, worries remain as to the stability of some of the countries and territories covered by OBOR. Additionally, concerns have been expressed whether the China-led AIIB is likely to erode corporate governance standards set by the World Bank, the Asian Development Bank (ADB) and the International Monetary Fund (IMF). The AIIB Chairman has openly stressed that there is vast room for cooperation with the World Bank (19). A cooperation agreement between AIIB and the World Bank has been signed, whereby the latter will prepare and supervise joint projects “in accordance with its policies and procedures in areas like procurement, environment and social safeguards.” (20)

OBOR has gone off to a good start. According to Xinhuanet.com (21), more than 70 countries and organizations have expressed their support and willingness to join OBOR. 34 countries and international organizations have signed inter-governmental cooperation agreements with China. In April, 2016, China also signed a letter of intent for cooperation of OBOR with the United Nations Economic and Social Commission for Asia and the Pacific.
4. Ideas to leverage OBOR

Oman’s immediate neighbours are relatively friendly states: Saudi Arabia, Yemen, Iran, Pakistan and India. Oman’s strategic location enables it to act as a regional hub between Asia and GCC states. Oman is therefore in a position to leverage OBOR to further its own development goals. Some possible ideas come to mind:

(a) As detailed above, through the Port of Duqm, Oman can become an oil refinery hub for the Gulf by partnering with maritime “Silk Road” infrastructural investments in Pakistan’s Gwadar Port and the Ports of Djibouti and Nairobi in the Eastern horn of Africa. OBOR partnership would expand Oman’s regional market share in this sector.

(b) The China-Pakistan Economic Corridor linking Gwadar thorough Islamabad to Kashgar in China’s Xinjiang Province matches the Gulf’s maritime route from Kuwait through the Gulf to Gwadar and onto Kashgar. Oman is strategically located to harness the opportunities offered by these two parallel routes connecting with OBOR.

(c) Oman is to launch a 200MW solar project tender in 2016 (22). Together with exploration of wind and wave energies for desalination, Oman could play a leading role in the Gulf for the development of renewable energies where OBOR may offer Oman inward investment opportunities.

(d) Oman and most other Gulf states are Members of the Asia Infrastructure Investment Bank (AIIB), which supports OBOR in the region. As such Oman can play a significant role in RMB-dominated trade in the Gulf and grow itself into a Middle East offshore financial centre for the internationalization of the RMB as well as associated Islamic finance.

(e) Oman is well placed to capitalize on OBOR to develop linkage industries such as drilling rigs (with a potential business opportunity estimated at $1.4bn-1.5bn); engineering and engineering management services ($2.5bn-2.7bn); sourcing of construction materials and equipment ($3.9bn-4.3bn of business and 577-639 jobs); as well as fertilizers and metal products.

(f) Omantel, a major wholesale telecom carrier in the Middle East, signed a supply agreement on 9 February, 2016 with Xtera Communications, Inc., a leading provider of high-capacity submarine cables, to build a Gulf-to-Africa (G2A) Cable System in partnership with regional operators from Salalah in Oman, Bosaso in Puntland, Berbera in Somaliland, to Addis Ababa in Ethiopia (23). Oman is well-placed to leverage these telecom links with infrastructural and other investments along the OBOR’s maritime “Silk Road” passing through East Africa and the Red Sea.

(g) OBOR includes China’s outward investments in special economic zones along its routes. These offer opportunities to relocate excess capacities and industries no longer competitive in China as a result of rising labour and other costs. Oman’s special economic zones e.g. Duqm, could benefit from such investments, which can be designed to create Omani jobs and train local expertise.

(h) OBOR will offer opportunities to expand Oman’s tourism industries, including Arabic theme parks, cultural tourism, and global merchandizing.

(i) Working with the Omani Ministry of Higher Education, academic partnership projects with OBOR will open more opportunities for Omani universities to develop academic and internship networks through joint R & D, exchange programs, and business-school curriculum cross-fertilization.

(j) Expected to open in July 2017, the multi-billion-dollar Wanda Studios Qingdao (WSQ) (24), is owned by China’s richest, world-league, serial entrepreneur Wang Jianlin and built by the world’s best and brightest in film-making including those from Hollywood. It will offer comprehensive creative and production services to filmmakers around the world. OBOR is likely to open avenues for joint projects in creative industries, including location-filming, costume design, and spin-offs in the field of fashion, architecture and interior decoration.

5. Conclusion

A transformed but uncertain world with slower growth and tectonic economic, social, and political shifts demands thinking outside the box if Oman is to leapfrog to the next higher level of development. Currents of xenophobic anti-globalization in some advanced countries notwithstanding, the world is never more inter-connected and inter-dependent. Despite risks and uncertainties, China’s trans-continental OBOR economic connectivity offers remarkable opportunities for Oman to leverage to achieve its development
goals of diversification, enhanced productivity, and employment creation. By taking advantage of OBOR’s investment projects, backed by the Asia Infrastructure Investment Bank, China’s Silk Road Fund, and the BRICS New Development Bank, Oman stands to gain more with less and to achieve a win-win outcome.

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Author’s Background

Prof. Andrew Leung has held the following positions

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- Elected Member, Royal Society for Asian Affairs
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