

DYNAMICS

#02 | 2022

I D E N T I T Y

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TABLE OF CONTENTS

Code Word: NEW	1
The Saudi Founding Day, Forging of a New National Identity	3
The Holy See in the Arabian Peninsula: New Path for Religious Coexistence?	5
The EU-Gulf Monitor / February 2022	9
Searching for Further Revenue Streams: The UAE Introduces Corporate Tax	11
Expanding a Long-time Partnership: Oman and the UK Bolster Economic Ties	13

Dynamics is a special publication on the unfolding relations between Europe, the Arab Gulf and the wider Middle East. Published in both hard- and digital formats, each issue features information papers, commentaries, analyses and interviews of field specialists. Every issue represents a collection of ideas, insights and comments, both exclusive and collected from external sources, with the aim of providing an innovative look towards the Gulf region. Dynamics is completely **free** and collaboration is open to everyone.

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INTRODUCTION

Code Word: NEW

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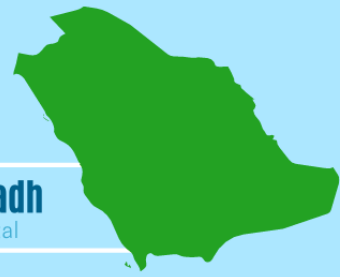
Over the past two decades, the Gulf Cooperation Council (GCC) countries have not shied away from announcing their lofty ambitions for the future. The long-term socio-economic and cultural development strategies among the GCC states, as reflections of their 'Visions,' is a clear indicator of how aspirations are shared across the region. These have been driven by the awareness that economic diversification is necessary and GCC policy-makers have realised that oil and gas fuelled economies are not sustainable in the long term. Compounding the issue are clear demographic pressures, as the largest population category, by far, is between 22 and 45 years of age—at the entry to mid-career level. Combined with regional political issues, the GCC states have set themselves on a pathway guided by keywords such as: reform, innovation, and modernisation.

The drive to the future has, thus, began in earnest. The GCC countries are attempting to find new revenue

streams and are budding hubs for culture, technology and trade and, in doing so, are developing new national narratives. This issue of Dynamics takes a snapshot of some of these issues and more.



KINGDOM OF SAUDI ARABIA



2,150,000 km²
Land area



Riyadh
Capital

40/189



Human Development Index (ranking)

36/139



Global Competitiveness Index 4.0

62/190



Ease of Doing Business

41/101



Energy Trilemma Index

2/189



Oil reserves

14/181



Natural gas reserves

DEMOGRAPHICS & SOCIETY

35 million
total population



44.6 million
projection for 2050

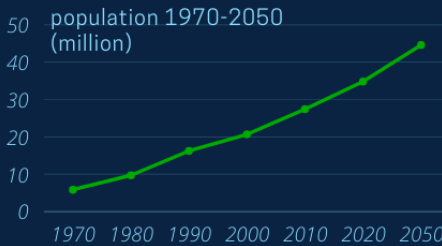
1.6%
annual population growth

42.2%



61.8%

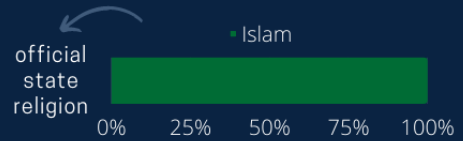
nationals



(Source: Saudi General Authority for Statistics [SGAS] mid-2020, UNDP 2021, World Bank)

RELIGION

(CIA, 2012 est.)



EDUCATION

(UNESCO, 2020)

15+ literacy rate
95.3%

65+ literacy rate
62.4%

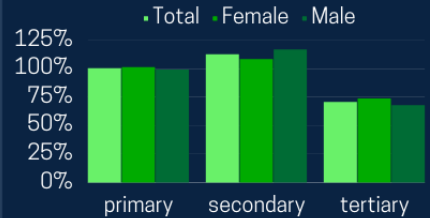
19.4%



of state budget

PARTICIPATION IN EDUCATION

(gross enrolment ratio)



AGE COMPOSITION

24.4%

under 14

14.5%

15-24

3.2%

over 65

31.8
Median Age

75
Life Expectancy

(UNDP, 2020)

ECONOMY & TRADE

2020

\$650.7 bn
GDP (constant 2015 US\$, World Bank)

\$44,075
GDP per capita, PPP (const. 2017 int. \$, IMF)

IMF OUTLOOK FOR 2022:

\$45,997 ↑
GDP per capita, PPP (const. 2017 int. \$)

4.8% ↑
Real GDP growth

LABOUR FORCE

(World Bank)

15,991,854
total labour force

20.9%



7.4%
total unemployment

NATIONAL BUDGET 2022 (US\$)

(Ministry of Finance)

REVENUE

\$278.5 bn
(SAR 1,045 bn)

EXPENDITURE

\$254.5 bn
(SAR 955 bn)

SURPLUS

\$24 bn
(SAR 90 bn)

63%

oil revenues % of the total revenue

MILITARY EXPENDITURE

8.4% of GDP
(SIPRI, 2020)

BACK FOR THE FUTURE

The Saudi Founding Day and the Forging of a New National Identity

Author: Nikola Zúkalová

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For the first time, the Saudi Founding Day is being celebrated on 22 February 2022 to mark the ascension of Muhammad bin Saud Al Muqrin, the founder of the First Saudi State (Emirate of Diriyah), in 1727 in the small town of Diriyah in central Arabia. This mirrors the ongoing wave of change in the Kingdom of Saudi Arabia that aim to modernise the country. Creating a narrative defined by nationalist, rather than religious, imagery Founding Day is a clear step towards reinforcing a common sense of national destiny. Previously, the founding of the First Saudi State and the essence of the Kingdom of Saudi Arabia has been identified with a strong, ultra-conservative religious line, stemming from the long, tight-knit partnership between the religious establishment that has defined the Al Saud rule since Muhammad bin Saud's pact with the Islamic purist cleric, Muhammad bin Abd al-Wahhab, made in 1744. Shifting the beginning of the First Saudi State from 1744 to 1727 signifies an effort to distance the political and social origins of Saudi Arabia from the religious. Over the past years, Saudi Arabia — under the leadership of King Salman bin Abdulaziz Al Saud and Crown Prince Mohammed bin Salman Al Saud — has been redefining the relationship with the religious establishment

and curbing the power of religious institutions including, for instance, by abolishing the religious police (Mutawa), introducing social reforms and sidelining ultra-conservative clerics opposed to reforms who were in conflict with the country's socio-economic and political goals. Building a national narrative — and reflective identity — beyond Islam is a crucial step for transforming the country and achieving Saudi Vision 2030. Apart from the future development goals of Saudi Arabia, creating a national identity will be key for overcoming sectarian and ethnic tensions and for denying extremists sway because it offers individuals a more tangible identity, closer to home, and eases people away from more destructive transnational identities and creating a deeper sense of belonging to their home country. At the same time, it seeks to unite the country and boost the centrality of the state over tribal affiliations. Given the rapid pace external challenges gather and given the nature of the region Saudi Arabia is located in, there is a clear need to create a rally around the flag effect. In this case, Saudi Arabia prioritises the nationalist flag rather than the flag of transnationalism. The above discussion should not be taken to imply that Saudi Arabia

is heading towards secularism or departing from its traditions. Islam will always remain a key element of the country's identity and not only because of its status as custodian of the two holiest sites of Islam, Mecca and Medina, and its relatively religiously homogenous society. Rather, religion will be promoted in moderate forms as one of many cultural elements of the Saudi identity as the country embarks on a journey to open up to the world, welcoming tourists and showcasing national heritage, while its citizens have more opportunities to travel freely around the world, all becoming ambassadors of their country. In this way, building a new national identity also serves to reverse some of the negative effects of globalisation: Saudi Arabia is signalling to the world that it is serious about its transformation, is rerecuperating its past and is ready to chart a new path for the future generations. The Saudi Founding Day and the centring of the day around the achievements of Muhammad bin Saud Al Muqrin is a step in that direction.

NEW PATHS

The Holy See in the Arabian Peninsula, a New Path for Religious Coexistence?

Author: Leone Radiconcini

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On 4 February 2022, the substitute of the Vatican State Secretary, Venezuelan Archbishop Edgar Peña Parra, was in Abu Dhabi to inaugurate the newly established Apostolic Nunciature to the United Arab Emirates (UAE), i.e. the Vatican embassy, greatly enhancing UAE-Vatican relations. The event was also attended by many other relevant representatives both from the Holy See and the Emirati government, such as Bishop Paul Hinder, the Apostolic Vicar for Southern Arabia, and Noura bint Mohammed Al Kaabi, Minister of Culture and Youth for the UAE. Archbishop Peña Parra highlighted the significance of the move: ‘the meaning of the opening of a Nunciature in this country is very simple. It is [that] the Holy Father will have a house here. [...] It has a spiritual meaning: the closeness of the Holy Father to the country, and at the same time it is an upgrade of the relations between the two states.’ Diplomatic relations between the UAE and Holy See were established in 2007 and have significantly advanced since then. Until now, Kuwait was the only country in the GCC to host a Nunciature. Since the establishment of diplomatic relations between the Vatican and the GCC countries, Kuwait’s Nunciature was the centre of the Holy See policies in the region. It is named the Apostolic Delegation to the Arabian Peninsula

and maintained all the channels of communications with the countries of the Peninsula, including Yemen. Three different Nuncios (i.e., ambassadors) took office since its opening, but the post has been vacant from 2020. Now, with the implementation of a residential embassy in the UAE, the possibilities of further cooperation will critically increase. The date of the Embassy’s opening — 4 February — commemorates the three-year anniversary of the signing of the historic “Document on Human Fraternity for World Peace and Living Together” during Pope Francis’s visit to the UAE along with the Grand Imam of Al-Azhar, Ahmad Al-Tayyeb, which called all the religions of the world to join forces in reiterating their fundamental values of peace and tolerance. The day was also proclaimed by the United Nations General Assembly as the “International Day for Human Fraternity” since 2021 upon the initiative of the United Arab Emirates, Bahrain, Egypt and Saudi Arabia. According to UAE’s constitution, freedom of religion is guaranteed and protected by state authorities, every person is equal before the law and discrimination on grounds of religious belief is prohibited. However, the Emirati penal code prohibits blasphemy and proselytising by non-

Muslims. Nevertheless, some of the most recent laws introduced in the country have the goal of promoting tolerance and coexistence between religious groups. In this sense, the creation of the Abrahamic Family House, an interfaith complex in Abu Dhabi set to open in 2022, will be a physical representation of the new path followed by the Emirati leadership. According to the latest data available, UAE citizens (approximately 1 million people) are mostly Sunni Muslims (89%) while the non-citizen residents (about 9 million) profess different religions and confessions, from Hinduism, Catholicism, Judaism to the various branches of Islam. In such context, freedom of religion represents an increasingly relevant topic for state authorities, which are implementing different policies to provide support to minority religious groups. The establishment of the Nunciature should be perceived as another step in this direction and an important asset for the framework of religious coexistence the UAE authorities are pursuing. This policy, indeed, perfectly fits in UAE Vision 2021, which predicated a more inclusive and cohesive society, and in UAE Centennial 2071, a five-decade long-term plan which envisions the future of Emirati society. Similarly, Pope Francis is promoting inter-confessional and inter-religious dialogue all over the globe and therefore looking for expanding the network of religious figures and organisations that have peace, tolerance, and coexistence between religious groups as their core values. In order to do so, it appears necessary to promote good relations with Islamic countries and creating residential Nunciatures is an

important part of this process. The UAE could take the lead in promoting the inter-religious dialogue in the Arabian Peninsula, thanks to its improving relations with the Holy See, and create a channel of communications between the Gulf Cooperation Council (GCC) countries and the Vatican. All this considered, the opening of the Nunciature represents a milestone in the improvement of UAE-Vatican relations. On this subject the following policy recommendations can be made:

1. **Create a Nunciature in all GCC countries.** The opening of the UAE embassy is a good sign of improvement of relations, however, if the Holy See wants to properly support inter-religious dialogue in the region, it needs to have a direct channel of communications with all the GCC countries. Moreover, the UAE could help the Holy See opening diplomatic relations with Saudi Arabia and Oman and, consequently, a Nunciature, in a longer term.
2. **Cooperating in addressing regional religious and humanitarian issues.** The Holy See can play a relevant role in the region by supporting inter-religious dialogue and help prevent religious conflicts, as well as extremism and radicalisation. Moreover, the interest of the Holy See in humanitarian issues could represent an asset for improving the problems in the Arabian Peninsula.
3. **Support the national policies for religious tolerance.** As many countries in the area are improving the legal framework to support

religious minorities, the Vatican can offer an important support in defining the most relevant issues to tackle to support religious coexistence.



From conquests and external incursions, the first tribal settlements, urbanisation, colonisation and chapters of intrigue, through border disputes and internal conflicts, oil and gas discoveries, to independence, nation-building and modernisation, the Euro Gulf History Portal delivers a daily dosage of selected historic events that contributed to shaping the current state of affairs in the Arabian Peninsula.

The Gulf countries' history is not only deeply fascinating but also crucial for understanding the present and future direction of the countries and the region.

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AN EYE ON THE REGION

The EU-Gulf Monitor / February 2022

Author: Arnold Koka & Veronica Stigliani

The Monitor includes a carefully selected batch of the most important news unfolding in the Gulf countries to help you map the region's trends and the dynamics of its relations with Europe. It is published weekly and is also available in audio format at www.egic.info

Kingdom of Bahrain

Bahrain introduced the 'Golden Residency Visa', a new type of permanent residency visa. The new permit aims to attract specialised workers and foreign investors in the Kingdom, and is part of the country's Economic Recovery Plan's aims to enhance its international economic competitiveness.

State of Kuwait

Tensions between Kuwait's Cabinet and the Parliament do not seem to end. In mid-February, Kuwait's Ministers of Defence and of Interior resigned over tensions with the country's National Assembly. Kuwait has undergone repeated parliamentary stalemates in the last year, which resulted in two Cabinet resignations, followed by the launch of a national dialogue between the Government and the National Assembly in October 2021. In the meantime, Kuwait announced it will conclude its 'Kuwaitisation' plan, launched in 2017 to replace expat workers in the government sector with Kuwaiti citizens, by August 2022.

Sultanate of Oman

Oman announced it will organise the 'Oman Sustainability Week' in March 2022, seeking to generate

partnerships in the sectors of green economy and sustainable technology. In early February, the Sultanate also formed a National Committee for Climate Change, which will focus on implementing environmental protection policies.

The EU Corner

The 26th GCC-EU Joint Council and Ministerial Meeting took place in Brussels. During the Joint Council, chaired by the EU High Representative for Foreign Affairs and Security Policy, Josep Borrell, and Saudi Arabia's Foreign Minister, Faisal bin Farhan Al-Saud, the EU and GCC Ministers committed to strengthening cooperation, particularly in the fields of regional security, counterterrorism, health, cybersecurity and climate change. They also established a Joint Cooperation programme for 2022-2027 aimed to boost political dialogue. The Council also reviewed regional crises, including Palestine, Yemen, Libya, Syria, Lebanon, Iraq, Iran, and Afghanistan, exploring how to address them in a concerted way.

State of Qatar

Two days before the Russian invasion of Ukraine, Doha hosted the Gas Exporting Countries Forum to discuss

the situation in the gas market amid international tensions. Leaders and representatives from eleven states gathered for the event, amid which Russia, Iran, Algeria, Libya and the UAE. Qatar's Energy Minister, Saad Al-Kaabi, stressed how the Doha could not replace gas supplies to Europe in case of disruption and sanctions. The Minister also affirmed that Qatar could divert up to ten or fifteen percent of liquefied natural gas (LNG) volumes to Europe.

Kingdom of Saudi Arabia

Saudi Arabia and the International Atomic Energy Agency (IAEA) are cooperating on developing nuclear energy, IAEA's Director General Rafael Grossi said in a statement. Grossi also affirmed that the IAEA will cooperate with Egypt in developing nuclear energy.

The United Arab Emirates

The UAE and India signed a Comprehensive Economic Partnership Agreement (CEPA). The deal aims to increase Emirati-Indian trade to more than €88 billion in five years.

Key Official Visits

The UAE and Turkey announced a new phase in bilateral strategic partnership, as Turkish President, Recep Tayyip Erdogan, visited Abu Dhabi on 14 February. President Erdogan met with Abu Dhabi's Crown Prince, Mohammed bin Zayed Al-Nahyan, and UAE's Vice President and Prime Minister and Ruler of Dubai, Mohammed bin Rashid Al-Maktoum. The talks focused on defence, trade and energy, with the leaders signing 13 cooperation deals.

The following day, Israel's Prime Minister, Naftali Bennett, travelled to Manama, in the first visit by an Israeli Prime Minister to Bahrain. He was received by Bahrain's King Hamad bin Isa Al-Khalifa and Crown Prince and Prime Minister, Salman bin Hamad Al-Khalifa. The two countries signed a 10-year cooperation plan, 'Warm Peace Strategy', identifying strategic partnership areas, such as food security, water, sustainable energy, trade and investment.

On 20 February, the Munich Security Conference gathered head of states, ministers and high-level officials, including from the US, Russia, Israel, Bahrain and Saudi Arabia, to discuss key international security issues, such as the developments in the Gulf-Israeli relations and the Abraham Accords, and climate change and food security in the Middle East.

NEW REVENUES

Searching for Further Revenue Streams: The UAE Introduces Corporate Tax

Author: Sophie Smith

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On 31 January 2022, the United Arab Emirates (UAE) announced that it will introduce a federal corporate tax on business profits from 1 June 2023 in a first for the country. Businesses will be subject to a 9% tax—albeit with several exemptions. For instance, small businesses and start-ups that generate less AED 375,000 (EUR 90,000) profit will not be subject to taxation. Neither will it apply to personal income from employment, real estate and other investments or to other personal income unrelated to a UAE trade or business. Foreign investors who do not conduct their business in the country will not have to pay the tax either. The announcement comes four years since the UAE introduced a 5% value-added tax (VAT) in 2018.

The Motives Behind Corporate Tax

The decision to introduce a corporate tax comes as the UAE attempts to align itself with global standards. The Ministry of Finance referenced that the tax supports the Organisation for Economic Co-operation and Development (OECD) landmark framework for international tax reform — announced in July 2021 — which sets a global minimum corporate tax rate of 15%.^[iii] In that respect, the new tax regime consolidates efforts to ensure that large multinational

companies ‘pay their fair share of tax everywhere’ to combat tax avoidance. Additionally, it paves the way for addressing challenges that emerge from the digitalisation of the global economy vis-a-vis the physical presence (or lack thereof) of firms in foreign markets.^[v] Finally, it reaffirms the UAE’s commitment to encourage tax transparency and prevent harmful tax practices, according to Younis Haji Al Khoori, Undersecretary of the Ministry of Finance. Crucially, the introduction of the corporate tax will bolster Abu Dhabi’s efforts to diversify its revenue streams away from its reliance on hydrocarbons — particularly, as globally, countries are starting to wean off oil in favour of alternative and more sustainable sources of energy — in line with its economic development plan UAE Centennial 2071. To that end, the move will help improve the country’s fiscal trajectory in the mid- to long-term as it transitions to a knowledge-based economy.

Abu Dhabi Remains Competitive

Despite the costs that businesses will incur from the tax, the introduction of a corporate tax is unlikely to significantly harm the UAE’s international competitiveness as a global business and investment hub.

The 9% rate will be among the lowest globally in comparison to other low-tax hubs around the world such as Ireland (12.5%), Singapore (17%) and Hong Kong (8.5%-16.5%). The same goes for its standing regionally as it is still lower than Saudi Arabia (15%) and Qatar (10%). And, to further mitigate the rise in costs for businesses, Dubai has said it is reviewing the possibility of reducing government fees on commercial activities. The UAE has also introduced a number of other initiatives to remain an attractive destination for foreign companies. For instance, in 2021, the government amended the Commercial Companies Law to permit 100% business ownership, and it shifted the weekend to the western Saturday-Sunday to align with global markets. This is complemented by revisions to visa regulations in the same year to make it easier for skilled workers to move to the Emirates, such as expanding those eligible for the Golden Visa, a longer-term visa without sponsorship, to encompass further groups (e.g. entrepreneurs, professionals and specialised individuals in the field of science, knowledge, culture, art and sports). The government also created the Green Visa to allow highly skilled individuals, investors, entrepreneurs and top students/graduates to sponsor themselves to come to the UAE.

What's to Come?

In order to maintain a competitive edge, Abu Dhabi is likely to continue introducing new measures related to attracting foreign businesses as it attempts to diversify its economy away from hydrocarbons and generate further revenue streams, while

aligning with international standards. In that respect, the UAE is on the right track. It should continue introducing measures to maintain a competitive business environment within the perimeters of international standards. And it should partner with other countries — as it has done through in the context of the OECD's framework — to combat tax evasion and harmful tax practices. Together, this will further the UAE's ambitions of transitioning to a knowledge-based economy and creating a robust taxation system.

OLD TIES, NEW DEALS

Expanding a Long-time Partnership: Oman and the UK Bolster Economic Ties

Author: Sophie Smith

Analyst at The Euro-Gulf Information Centre (EGIC)

On 11 January 2022, Oman and the United Kingdom (UK) established a Sovereign Investment Partnership (SIP) with the intention to bolster their economic ties and increase high-value investments in areas such as clean energy and technology. The Memorandum of Understanding (MoU) was signed by the UK's newly formed Office for Investment (OFI) and the Oman Investment Authority (OIA). The meeting is indicative of the growing relations between the two countries as they seek to boost foreign investments in an effort to stimulate the economy in a more sustainable manner post the COVID-19 pandemic. It is also part of the UK's wider aim of advancing economic relations with the lucrative Gulf Cooperation Council (GCC) market and securing a UK-GCC Free Trade Agreement.

An Established, Comprehensive Partnership

As a former British semi-protectorate, Oman has an established, comprehensive relationship with the UK that spans several sectors from defence and security to education. Most notable perhaps though are its economic ties. Indeed, UK firms have a long history of investing in the country. For example, UK oil and gas companies BP and Shell have significant

interests in Petroleum Development Corporation (34%) — Oman's leading exploration and production company — and Khazzan Gas project (60%) — one of Muscat's largest upstream projects — respectively. And, in 2021, UK waste-to-energy manufacturer Green Fuels formed Wakud, a joint venture with an Omani consortium, that has invested over \$2 million into the Sultanate's biofuel market. This encompasses a biorefinery in Khazaen Economic City that is set to become the world's first solar-powered biodiesel plant later in 2022. Such initiatives have been further consolidated by the recent uptick in bilateral government-driven engagements amid the UK's departure from the European Union. In 2019, the two countries entered 'a new era of cooperation, sharing expertise and experiences,' according to both Foreign Ministers, with the signing of several agreements. The Joint Defence Agreement and the Joint Declaration on Enduring Friendship, signed in February and March 2019, respectively, was followed by a Comprehensive Agreement on Enduring Friendship in May 2019. These acted as a catalyst for strengthening cooperation in priority sectors such as sciences, health, technology and defence. Further building on this, in December 2021, UK Prime Minister, Boris Johnson,

and Sultan of Oman, Haitham bin Tarik Al Said, held discussions on bolstering bilateral relations in trade, investment and defence. Against this backdrop, Oman and the UK share a growing trading relationship of £1 billion annually with UK foreign direct investments (FDI) in the Sultanate having consistently accounted for 50% of foreign investments into Oman in recent years (barring 2021).

Beyond the UK: Boosting Foreign Investment

The agreement with the UK is indicative of Muscat's broader strategy to attract foreign investment to the country underpinned by its economic development plan, Oman 2040. Under the guidance of Oman 2040, it has implemented a myriad of measures to attract outside investments, such as the establishment of Duqm Special Economic Zone (which offers tax exemptions and the like) and the introduction of legislation that, for instance, allows for 100% foreign ownership and removes minimum capital requirements. And complementary to this, it has been penning agreements with countries such as China, the United States and its Gulf neighbours to attract their business into the Sultanate. Particularly, there has been a focus on attracting Chinese investments — which took the UK's first place in FDI inflows in 2021 — as indicative by Omani Foreign Minister, Badr Hamad Al-Busaidi's, visit to China in January 2022. Such measures are designed to diversify the economy away from its reliance on hydrocarbons, which has become ever more necessary in recent times. Oman's economy has

significantly suffered as a result of the COVID-19 pandemic. Its budget deficit reached -17.32% of GDP in 2020, a deficit Oman has been operating under since 2014. This is coupled with a negative economic growth rate that hit -6.4% in the same year, a number not seen since 1987.

Into the Future

Despite the urgency and the implementation of enhanced trade measures, FDI inflows have not significantly increased. After reaching a high in 2018, they have been falling with the most recent figure in 2020 being \$2.86 billion. [xiii] That said, rating agency Fitch recently revised Oman's outlook to 'stable' from 'negative,' citing higher oil prices and fiscal reforms.[xiv] In this respect, things appear to be looking up for Oman. To ensure that this is realised and capitalised on, the following recommendation can be given in relation to increasing foreign investments:

1. **Further diversify its foreign partnerships.** With the UK — and now China — making up the majority of Oman's foreign investments, the Sultanate should focus on reducing its reliance on one country and diversifying its partnerships. Hence, it should focus its energy on forging and strengthening partnerships with other countries (including notably European ones). However, this should not come at the expense of its main partners who will continue to play a key role in Oman's economy.
2. **Continue introducing reforms**

that make Oman more attractive to foreign investors. This involves addressing challenges, as cited by businesses, such as the Omanisation quotas (the requirement to hire a specific percentage of Omani nationals), transparency measures for tenders and other bureaucratic obstacles, to name a few.

A Special Project by the Euro-Gulf Information Centre (EGIC)