

## Case Study 3.3

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# The Special Economic Zone at Duqm, Oman

## A Chinese-Invested Strategic Port

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### 1 Overview

This case study examines a Chinese-Omani cooperation project in the Special Economic Zone at Duqm, Oman (SEZAD), and illustrates how its significance extends beyond the China-Gulf relationship with broader implications for trade and security in the wider region. It shows how a small fishing village followed the typical Gulf progress narrative of new infrastructure and skylines rising from the desert, and how this vision advanced in conjunction with increasingly Chinese-driven development. The case study demonstrates how a project that began as one of the ports along the Maritime Silk Road (MSR) has gained in importance as being at the intersection of security interests in the region.

With an area of 2,000 km<sup>2</sup> and a coastline of 80 km, the SEZAD is currently the largest special economic zone in the Middle Eastern and North African (MENA) region. It is a strategically located transshipment point for goods moving between Asia, Europe, and Africa and provides a crucial node in facilitating global trade and connectivity. The Sino-Oman (Duqm) Industrial Park is a major industrial park that is being developed within the SEZAD and is expected to attract investment of around US\$10 billion. It will focus on a variety of industries including energy, manufacturing, and logistics, with key sectors for investment including agriculture, fishing, oil and gas extraction, the processing of foods, agrifoods, petroleum and nuclear fuel, the manufacture of chemical products, rubber and plastic products, automobiles, and building and construction industries.

This case study first discusses the overall context and considers the investment environment of Oman as well as Oman's relationship with China. It then concentrates on the SEZAD and highlights several aspects that make this case unique. These include the involvement of multilateral funding (namely, the Asian Infrastructure Investment Bank), the involvement of Chinese provinces in the development of an overseas industrial park, and issues for China as it invests in a neutral country, Oman.

## 2 Introduction

In February 2022, toward the end of the COVID-19 pandemic restrictions, the world witnessed a unique event: European monarchs, the king and queen of the Belgians, inaugurating a port in the Indian Ocean. The Omani Port of Duqm (ميناء الدقم) located in a sparsely populated Governorate of Al Wusta (الوسطى) which literally means “the middle” in Arabic), is poised to play a pivotal role in international trade and shipping today as part of the SEZAD, a Chinese-Gulf cooperative project. This mega project would not have been possible without economic investment from China. The Sino-Arab Wanfang Investment Management Ltd. (中阿万方投资管理有限公司) invested US\$10 billion in the project that includes the tripartite urban arrangement of a port, an industrial park, and a residential district. Additional funding was provided by a Western consortium led by the Port of Antwerp, Belgium, with the project aiming to transform an unremarkable fishing village into a major industrial port city.

In the modern era, ports have undergone a transformation from being mere cargo-handling facilities to comprehensive industrial hubs with integrated infrastructure and associated complex contractual and legal frameworks. These state-of-the-art facilities are designed to optimize the process of receiving, storing, handling, and distributing goods in an efficient and timely manner.

While this concept is not new, the Port of Duqm is unique in its multifaceted strategic significance, which goes beyond the typical functions of a modern port. In fact, the largest investment in Duqm has been directed not only to cargo berths and terminals but also to a new city with its own industrial, residential, and tourist areas. Even considering the many Chinese-funded industrial parks across the world, this one is particularly ambitious, a fact which suggests that it is not merely a commercial investment by China but also a strategic decision.

Since the MSR encompasses strategically positioned ports that facilitate trade between Asia, Africa, and Europe, Oman’s position at the crossroads of three continents and three seas has ensured its role as a critical link in the MSR for centuries. Historically, the Omani maritime empire also controlled the vast trade routes of the Indian Ocean. In fact, two key ports of the 21st Century MSR, both heavily supported by Chinese investment, Mombasa and Gwadar, marked the original outermost boundaries of maritime Oman before they were transferred to Kenyan and Pakistani governance respectively.<sup>1</sup>

<sup>1</sup> The Omani Maritime Empire is split between the Sultanate of Zanzibar, which controlled trade routes to Mombasa and the Sultanate of Oman, and Muscat, which owned the Gwadar port from 1792 until 1958 when Pakistan purchased it. See Beatrice Nicolini, ‘Oman’s Maritime Activities throughout the Indian Ocean 1650–1856 CE’ in Abdulrahman Al Salimi and Eric Staples (eds), *Oman: A Maritime History* (Georg Olms Verlag Hildesheim 2017) ch 6. and Calvin H. Allen, ‘Oman’s Maritime History since 1856 CE’ in Abdulrahman Al Salimi and Eric Staples (eds), *Oman: A Maritime History* (Georg Olms Verlag Hildesheim 2017) ch 7.

Many things have changed since the empire. One thousand miles north of Mombasa, Djibouti port has become a contested ground for “great power” rivalries; the United States and four European countries have set up separate military bases there along with the first overseas Chinese base. Gwadar and nearby ports retain their strategic significance but now as nodes in China’s ambitious maritime trade network, the success of which has had varying effects on host countries as made evident, for example, by Sri Lanka’s debt crisis. Regardless of such disruptive events (the latest being Hamas’s attack on Israel and consequent responses taken by Houthis from Yemen), the Indian Ocean maritime routes remain crucial for global trade, with the Red Sea route alone accounting for around 30% of worldwide container traffic (more than US\$1 trillion goods annually).<sup>2</sup> These routes are now coming under additional pressure with problems further north caused by Russian aggression in Ukraine and issues in the terrestrial Middle East as it struggles to find a new peaceful equilibrium.

Such chains of events in the region emphasize the possible role the SEZAD could play for the Gulf Cooperation Council (GCC) and worldwide, first because the terrestrial security issues of the Middle East tend to have a less immediate effect on neutral Oman and second because its coast remains far away from the heavily militarized territorial waters around the Horn of Africa and hotspots within the Red Sea where global trade routes can be disrupted.

### 3 The Case

#### 3.1 Oman in the GCC

The Sultanate of Oman, a member of the GCC, is a small country with significant strategic importance in the region and to the world at large (for general details, see Table 3.3.1). It is situated at the intersection of three regions (South Asia, West Asia, and East Africa) and three seas (Arabian Sea, Oman Sea, and Indian Ocean). Consequently, Oman controls the Strait of Hormuz, a vital chokepoint for global oil shipments and other commodities. It is also an important link between the Indian subcontinent and the Horn of Africa, and Oman’s ports provide a convenient stopover for shipping between these two regions. This strategic location makes Oman an important partner for China, as China seeks to expand its economic and political influence in the region.

In contrast to many of its neighbors, Oman is relatively peaceful and stable, with a long history of independent foreign policy, neutrality, and mediation. As a descendant of a powerful maritime empire, it has maintained close ties with both the Arabian and the Persian sides of the Gulf and these relationships have allowed it to play a crucial role in regional diplomacy, serving as a

<sup>2</sup> Robert Perkins and Max Lin ‘Shippers Remain Wary of Red Sea Transit as Regional Tensions Rise’, S&P Global Commodity Insights, 2024, [www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/010224-shippers-remain-wary-of-red-sea-transit-as-regional-tensions-rise](https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/010224-shippers-remain-wary-of-red-sea-transit-as-regional-tensions-rise).

Table 3.3.1 Oman facts

<b>Area</b>	309,500 km <sup>2</sup> (coastline 2,092 km)	<b>Labor force</b>	2.259 million (2021 est.)
<b>Population</b>	3,833,465 (2023 est.)	<b>Foreign labor</b>	About 60% of the labor force are nonnationals
<b>Government type</b>	Absolute monarchy (Sultan Haitham)	<b>Unemployment/ youth unemployment</b>	3.12% (2021 est.) 4.6% (2021 est.)
<b>Legal system</b>	Mixed legal system of Anglo-Saxon law and Islamic law	<b>Exports</b>	US\$46.324 billion (2021 est.)
<b>Real GDP purchasing power parity (PPP)</b>	US\$155.028 billion (2021 est.)	<b>Export partners</b>	China 46%, India 8%, Japan 6%, South Korea 6% (2019)
<b>Real GDP per capita</b>	US\$34,300 (2021 est.)	<b>Imports</b>	US\$36.502 billion (2021 est.)
<b>Ratings</b>	Fitch: BB- (2020) S&P: B+ (2020)	<b>Import partners</b>	United Arab Emirates 36%, China 10%, Japan 7%, India 7%

**Economic overview:** high-income, oil-based economy; large welfare system; growing government debt; citizenship-based labor force growth policy; US free trade agreement; diversifying portfolio; high female labor force participation.

Source: Based on the CIA's 'World Factbook, 2024 Edition' [www.cia.gov/the-world-factbook/countries/oman/](http://www.cia.gov/the-world-factbook/countries/oman/).

mediator between the GCC and Iran, as well as between the United States and Iran. The country is thus a key player in efforts to maintain stability and promote cooperation in the Gulf region.

Oman has undergone a period of modernization and development over the past five decades under the rule initially of Sultan Qaboos bin Said who transformed the country, diversifying its economic priorities away from oil and exploring new avenues for growth. His successor, Sultan Haitham bin Tariq, the head of state since 2020, has continued this progress by providing a vision document "Oman 2040" focused on five strategic goals: further economic diversification, strong and inclusive private sector growth, sustainable and balanced development, efficient and transparent government institutions, and skilled and competitive Omani human capital.<sup>3</sup>

The future economic policy of Oman places significant importance on free economic zones (FEZs) as an investment instrument to achieve economic

<sup>3</sup> The Government of the Sultanate of Oman, 'Oman Vision 2040 | 2040 رؤية عُمان', [www.oman2040.om/assets/books/oman2040-en/index.html#p=19](http://www.oman2040.om/assets/books/oman2040-en/index.html#p=19).

diversification and growth, facilitate international trade and exports, help Omani businesses to reach new markets, and create jobs for Omanis. Oman's strategic location and well-developed ports, including the FEZs around them, contribute significantly to the country's trade and economic growth. In 2020, Oman's ports handled a substantial shipping cargo trade volume of US\$7,369 million, including 5.2 million TEUs of containers,<sup>4</sup> 18.4 million tons of liquid cargo, and 54 million tons of general cargo. The eight ports of Oman handle an annual average of 5,400 to 6,200 vessels, with Sohar, Salalah, Duqm, and the Port of Sultan Qaboos in Muscat being the most notable. The latter is also currently undergoing a gradual transformation to include a tourist port, enhancing its appeal in the region.

FEZs are special economic zones (SEZs) that offer a variety of incentives to attract foreign investment, including tax breaks, simplified regulations, and easy access to land and labor. However, SEZs and FEZs are not differentiated in Oman at the legislative level, in the Free Zones Law,<sup>5</sup> or in the decree establishing the Public Authority for Special Economic Zones and Free Zones (OPAZ).<sup>6</sup> The OPAZ lists only Duqm as a SEZ together with eight other strategically important entities it oversees including Al Mazunah Free Zone, Salalah Free Zone, and Sohar Free Zone. The terminological differentiation of Duqm's status may suggest greater plans for the SEZAD.

### 3.2 China-Oman Relationship

The ancient MSR forged strong cultural and trade ties between Oman and China, laying the foundation for a modern relationship that blossomed during Sultan Qaboos bin Said's reign. In 1978, the countries established formal diplomatic relations, recognizing the potential for mutually beneficial cooperation. The Sultanate actively participated in promoting cross-regional communication and interdependence. In addition to its strategic location, Oman is the fourth largest crude oil supplier,<sup>7</sup> reducing its dependence on traditional (coal) energy sources. Oman's neutral foreign policy and shared commitment to the five principles of Chinese Foreign Policy and International Law provide China with a valuable partner in the Gulf region, facilitating dialogue and conflict

<sup>4</sup> The twenty-foot equivalent unit (TEU) is a unit of cargo capacity often used for container shipping.

<sup>5</sup> Sultanate of Oman, مرسوم سلطاني رقم ٥٦ / ٢٠٠٢ بإصدار قانون المناطق الحرة [The Law of Free Zones Promulgated by Royal Decree (2002) (OM RD) 56/2002] published in the Official Gazette <https://mjla.gov.om/legislation/gazettes/>.

<sup>6</sup> Sultanate of Oman, مرسوم سلطاني رقم ١٠٥ / ٢٠٢٠ بإنشاء الهيئة العامة للمناطق الاقتصادية الخاصة والمناطق الحرة وتحديد اختصاص [The Law Establishing the Public Authority for Special Economic Zones and Free Zones and Defining the Jurisdiction Promulgated by Royal Decree (2020) (OM RD) 105/2020] published in the Official Gazette <https://mjla.gov.om/legislation/gazettes/>.

<sup>7</sup> 一带一路能源合作网 [Belt and Road Energy Cooperation Network] '中国能源进口量涨跌不一' [China's Energy Imports Are Mixed] (2022) <http://obor.nea.gov.cn/detail2/16937.html>.

resolution channels.<sup>8</sup> Oman's efforts in maintaining maritime security in the Gulf of Oman and the Arabian Sea align with China's goal of securing safe passage for its commercial vessels.

The trade volume between China and Oman has grown significantly in recent years (see Figure 3.3.1). In 2021, China exported goods worth US\$3.13 billion to Oman, while Oman exported goods worth US\$23.9 billion to China. In addition, there is a positive trend in cultural exchanges between China and Oman, with a recent increase in Chinese tourists visiting Oman and more Omani students studying in China.

The China–Oman relationship is likely to continue to grow in the years to come. The Belt and Road Initiative (BRI) provides a framework for further cooperation between the two countries, and both sides are committed to deepening their ties.<sup>9</sup> Much of this framework rests on the multilateral relations with the GCC, which have been developing for decades and achieved significant success with regard to the penultimate round of the China-GCC FTA negotiations,<sup>10</sup> the GCC Single Customs Union, as well as the establishment of a number of Sino-Arab platforms for economic cooperation such as the biannual China-Arab States Expo and the China-Arab States Cooperation Forum.<sup>11</sup> These are the main “umbrella” entities for multiple thematic platforms of South-South cooperation,<sup>12</sup> in which Oman has a mandate. In this sense, the creation of the SEZAD has not been just a bilateral effort and strategic partnership between Oman and China but an outcome of significantly wider regional cooperation.<sup>13</sup>

<sup>8</sup> The most recent codification of those principles on the national level are to be found in Art 4 of the Law of the People's Republic of China on Foreign Relations Adopted at the third meeting of the Standing Committee of the 14th National People's Congress on 28 June 2023, which states “互相尊重主权和领土完整、互不侵犯、互不干涉内政、平等互利、和平共处的五项原则” [The Five Principles of Mutual Respect for Sovereignty and Territorial Integrity, Mutual Non-aggression, Non-interference in Each Other's Internal Affairs, Equality and Mutual Benefit, and Peaceful Coexistence].

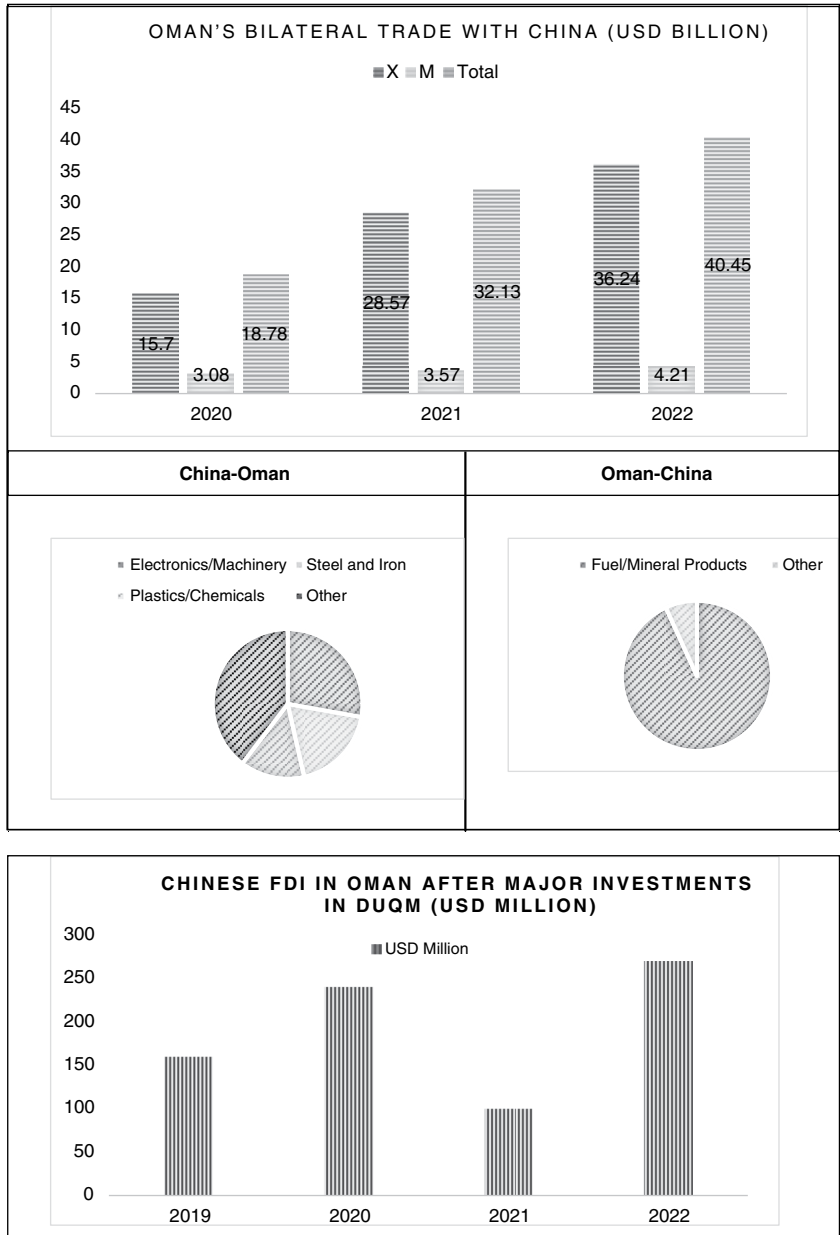
<sup>9</sup> National People's Congress of China, 王毅：“一带一路”不是中方“独奏曲”而是各方共同参与的“交响乐” [Wang Yi: The “Belt and Road Initiative” is Not a “Solo Piece” by China but a “Symphony” in Which All Parties Participate] [www.npc.gov.cn/npc/c2/c10134/201905/t20190521\\_258030.html](http://www.npc.gov.cn/npc/c2/c10134/201905/t20190521_258030.html).

<sup>10</sup> Ministry of Commerce of the PRC FTA Service Network, ‘中国-海合会自由贸易区’ [China-GCC Free Trade Area] [http://fta.mofcom.gov.cn/article/chinaihahui/haihehuinews/202209/49887\\_1.html](http://fta.mofcom.gov.cn/article/chinaihahui/haihehuinews/202209/49887_1.html).

<sup>11</sup> People's Government of Ningxia Hui Autonomous Region, 中国 – 阿拉伯国家博览会 معرض الصين والدول العربية [China-Arab States Expo] [www.cas-expo.org.cn/zh/index.html](http://www.cas-expo.org.cn/zh/index.html); Ministry of Foreign Affairs of the People's Republic of China, 中国 – 阿拉伯国家合作论坛 منتدى التعاون الصيني العربي [China-Arab States Cooperation Forum] [www.chinaarabcf.org/chn/](http://www.chinaarabcf.org/chn/).

<sup>12</sup> Ministry of Foreign Affairs of the People's Republic of China, 新时代的阿中合作报告 [Report on China-Arab Cooperation in the New Era] (2022) [www.mfa.gov.cn/wjw\\_673085/zfxgk\\_674865/gknrlb/tywj/zcwj/202212/t20221201\\_10983991.shtml](http://www.mfa.gov.cn/wjw_673085/zfxgk_674865/gknrlb/tywj/zcwj/202212/t20221201_10983991.shtml).

<sup>13</sup> Within the Chinese MFA classification of network of partners, Oman is named as a strategic partner (战略伙伴关系), which is different from the partnership (全面战略伙伴关系) level that China holds with Oman's neighbors: UAE and Saudi Arabia. See [www.omandaily.com/](http://www.omandaily.com/) عمان- والصين- علاقات- متجددة- وشراكة- استراتيجية/na/ عمان- اليوم. The PRC brands cooperate with the Arab states within the South-South Cooperation Framework while also maintaining the longer-term, civilizational perspective on the Sino-Arab relations. In the 2022 December Report on



**Figure 3.3.1** Oman-PRC trade statistics

Source: Compiled by author. Primarily based on the Chinese Ministry of Commerce data (see 中国商务部非洲西亚司, '双边合作简况' [Ministry of Commerce of the People's Republic of China, 'A Brief Overview of Bilateral Cooperation'] (29 November 2023) <http://xyf.mofcom.gov.cn/article/tj/>) since the Omani Statistical Office calculates trade volumes in the local currency and differentiates between the oil and non-oil merchandise (see National Centre for Statistics and Information, Statistical Bulletin: Foreign Investment, no.16, 2017-21, February 2023).

### 3.3 Local Labor and the Investment Environment

The vast majority of the Chinese projects in Duqm are carried out by migrant workers. The total migrant labor force in Oman is estimated to be more than 45% (1.6 million) of the total population in 2023, around 60% of which are migrants from India, Pakistan, and Bangladesh.<sup>14</sup> The construction sector is the largest employer of migrant workers, followed by the manufacturing sector and the services sector.

The situation is similar across Oman, which, like its neighbors, has a foreign worker sponsorship scheme, the *kafala* system.<sup>15</sup> Under this system, in order to obtain a working permit in the country, a foreign worker needs a sponsor (a *kafael*) who must be a local citizen. This sponsor often ends up controlling the foreign worker's immigration documents, work permit, mobility, and even accommodation. The ethics and fairness of the working relations between the *kafeels* and the blue-collar migrant workers in the Gulf states has been subject to international scrutiny for some time.<sup>16</sup> In recent years, with the latest set of reforms in 2023,<sup>17</sup> the Omani government has implemented a number of progressive changes to the *kafala* system that has made it easier for workers to change jobs and leave the country without requiring their employer's permission.

Apart from the labor reforms, the SEZAD investors also faced the challenge of bringing their own workforce from China as there were already many middle-age male migrant workers in the construction sector in Oman as well as alarming levels of youth unemployment.<sup>18</sup> It must be noted that along with the high number of migrant laborers, the Omani government is currently reviewing the quotas for the minimum number of local workers in the private sector. The goal is to achieve a gradual and sustainable increase in the so-called Omanization (تعمين) of the private sector labor force. Although benchmarks vary according to industry, the overall categories include the following goals by 2025: professional and

China-Arab States Cooperation in the New Era, the MFA of China refers to historical maritime and trade ties between the Arabian Sea and Chinese ports in the dynastic times while President Xi listed inter-civilizational dialogue as one of the eight major initiatives on China-Arab practical cooperation during the historical visit in Riyadh. See The State Council of the People's Republic of China, 习近平在首届中国—阿拉伯国家峰会上提出中阿务实合作“八大共同行动” [Xi Jinping Proposed “Eight Major Common Actions” for China-Arab Practical Cooperation at the First China-Arab Summit] [www.gov.cn/xinwen/2022-12/10/content\\_5731138.htm](http://www.gov.cn/xinwen/2022-12/10/content_5731138.htm).

<sup>14</sup> UN Department of Economic and Social Affairs – Population Division, and UNICEF, ‘Migration Profiles, Oman – Common Set of Indicators’ (2014) <https://esa.un.org/migmngprofiles/indicators/files/Oman.xlsx>.

<sup>15</sup> International Labour Organization, ‘Labour Migration in the Arab States’, [www.ilo.org/beirut/areasofwork/labour-migration/WCMS\\_514910/lang-en/index.htm](http://www.ilo.org/beirut/areasofwork/labour-migration/WCMS_514910/lang-en/index.htm).

<sup>16</sup> Migrant Forum in Asia Secretariat, ‘Policy Brief No. 2: Reform of the Kafala (Sponsorship) System’ [www.ilo.org/dyn/migpractice/docs/132/PB2.pdf](http://www.ilo.org/dyn/migpractice/docs/132/PB2.pdf).

<sup>17</sup> Sultanate of Oman, مرسوم سلطاني رقم ٥٣ / ٢٠٢٣ بإصدار قانون العمل [Labour Law Promulgated by Royal Decree (2023) (OM RD) 53/2023] published in the Official Gazette.

<sup>18</sup> World Bank, ‘Oman Economic Update’ (April 2019) [www.worldbank.org/en/country/gcc/publication/oman-economic-update-april-2019](http://www.worldbank.org/en/country/gcc/publication/oman-economic-update-april-2019).



technical occupations, 80%; administration and clerical occupations, 60%; service occupations, 50%; trade and sales occupations, 40%; production and related occupations, 30%. Such sensitivity toward the local labor force might have a negative effect on Oman's attractiveness for foreign investment, although in the case of the SEZAD, it seems this sensitivity has avoided problems, mostly due to the government's public diplomacy efforts. However, such labor law restrictions could pose additional barriers in the future for Chinese companies hoping to hire local employees in Duqm. Owing to the remote location of the area (more than 500 km from major urban centers), there are not many Omanis willing to relocate to Duqm.

Similar to its Gulf neighbors, Oman used to have restrictive investment laws that imposed on foreign investors a minimum cap for investment volume of around US\$500,000 per investor as well as restricted single corporate shareholder incorporation. In addition, laws required foreign investors to partner with an Omani company and limited the number of shares that could be owned by foreign representatives. Owing to the liberalization of foreign direct investment (FDI) legislation, the Commercial Companies Law (2019) allowed single shareholder incorporation,<sup>19</sup> and was followed by the new Foreign Capital Investment Law (2019),<sup>20</sup> which allowed simplified procedures for setting up wholly foreign-owned companies that permitted 100% share ownership in most types of business.

In addition to the more liberalized foreign investment rules that operate at the national level, the SEZAD offers specific incentives to investors such as no minimum registered capital and full foreign ownership, tax exemptions for thirty years, full repatriation of capital and profit, as well as free import or re-export duties. Even though land use is limited to fifty years, the duration can be renewed. The Sino-Oman Industrial Park is therefore at the heart of an advantageous free zone offering attractive incentives for foreign capital. The park has also received permission to build its own water and power plants, and products processed in the zone are regarded as local products for export. One-stop service centers provide businesses with the services they need, including registration, licensing, visas, and residence permits for expatriates. Such reforms are expected to work in favor of Chinese investors in Duqm, especially as they have pledged to invest in the SEZ to help attract additional FDI from across the globe.

### 3.4 Major Chinese Investors in Duqm

The Sino-Arab Wanfang Investment Management Ltd. is one of the major investors in the SEZAD. It is a Chinese company that was founded in 2015, has

<sup>19</sup> Sultanate of Oman, بإصدار قانون الشركات التجارية, رقم ٢٠١٩ / ١٨ مرسوم سلطاني رقم [Commercial Companies Law Promulgated by Royal Decree (2019) (OM RD) 18/2019] published in the Official Gazette.

<sup>20</sup> Sultanate of Oman, بإصدار قانون استثمار رأس المال الأجنبي, رقم ٢٠١٩ / ٥٠ مرسوم سلطاني رقم [The Foreign Capital Investment Law Promulgated by Royal Decree (2019) (OM RD) 50/2019] published in the Official Gazette.

a registered capital of RMB 200 million, and is headquartered in the Ningxia Autonomous Region. It has a focus on investment and management in the Middle East region. Company subsidiaries were established under the leadership and with the support of the Ningxia Hui Autonomous Region (NHAR) Government, a provincial-level jurisdiction within the PRC, and include Ningxia Shunyi Assets Management Ltd., Ningxia Water Investment Group Co. Ltd., Ningxia Construction Investment Group, Ningxia Residence Group Co. Ltd., Yinchuan Yushun Oilfield Services Technologies Co. Ltd., Yinchuan Fangda Electric Engineering Company, and the Ningxia Small and Medium Sized Enterprises (SME) Association.<sup>21</sup>

In 2016, the Oman Wanfang LLC was formed as a joint venture company by the Sino-Arab Wanfang Investment Management Company and the SEZAD with the sole aim of developing and operating the Sino-Oman (Duqm) Industrial Park. The cooperation agreement between Oman Wanfang LLC and the SEZAD was signed on 23 May 2016 by Yahya Al-Jabri, chairperson of the SEZAD, and Ali Shah, chairperson of Oman Wanfang LLC.<sup>22</sup> As part of the comprehensive agreement for land lease development cooperation, Oman Wanfang was granted 1,172 ha of land for the next fifty years for the development of the Industrial Park. This park is divided into three sections: a heavy industrial area of 809 ha, a light industrial complex of 353 ha, and a five-star hotel and tourist area occupying 10 ha.

The total investment for the development of the industrial park is estimated to be US\$10.7 billion, which is funded by Chinese companies and financed by Chinese banks. At initiation in 2016, ten projects worth more than US\$3 billion had been signed by Oman Wanfang LLC and its investors from China. These included:

- A building materials market.
- A methanol and methanol-to-olefin project.
- A power station.
- A seawater desalination and bromine extraction plant.
- A high-mobility SUV project.
- A solar equipment manufacturing base.
- A plant for the manufacture of oil country tubular goods.
- A plant for the manufacture of nonmetal composite pipes used in oil fields.
- A plant for the manufacture of steel thread frame reinforced polyethylene pipes and their parts.
- A five-star hotel.

<sup>21</sup> The official names of those companies are 宁夏顺亿资产管理有限公司, 宁夏水务投资集团有限公司, 宁夏建工集团有限公司, 宁夏住宅建设发展(集团)有限公司, 银川玉顺油田服务科技股份有限公司, 银川方达电子系统工程有限公司, 宁夏中小企业协会 respectively.

<sup>22</sup> Special Economic Zone Authority at Duqm, A Quarterly Magazine, 'US\$10.7 Billion in Investments in the Sino-Oman Industrial City' (Issue 5, July 2016) 10 [https://duqm.gov.om/publications/en\\_SEZAD\\_Quarterly\\_Magazine\\_Issue\\_5.pdf](https://duqm.gov.om/publications/en_SEZAD_Quarterly_Magazine_Issue_5.pdf).

In addition to the direct investments made by Chinese companies there was also notable support extended by a multilateral body, the Asian Infrastructure Investment Bank (AIIB).

### 3.5 AIIB Support

The AIIB, with headquarters in Beijing, has emerged as an alternative development finance institution. Given its focus on the Asian region as well as close ties with the GCC, in September 2023 the Bank established its first overseas office in Oman's neighbor, the United Arab Emirates.<sup>23</sup> Even though the AIIB was established as a Chinese initiative, the PRC currently holds only 27% of its voting shares; the rest are owned by its member countries, with Oman being one of the founding members. Having a wide portfolio, the AIIB has already funded development projects in thirty-six of its member countries, including Oman, which was one of the first high-income countries supported by the AIIB.

The AIIB contributed a US\$265 million sovereign-backed long-term loan.<sup>24</sup> Such an amount might look relatively modest in comparison to the Chinese private capital invested in Duqm. Yet, considering the timing and destination of the AIIB contribution, its loan was essential for securing the Duqm Port Loan and launching the SEZAD. In fact, the loan proved instrumental during the early days when the SEZ focused on the port and refinery and project work involved building port-related infrastructure such as access roads, terminal buildings, and operational zone facilities.<sup>25</sup> The project was successfully completed by the end of 2023,<sup>26</sup> and the AIIB assessed the degree of the project readiness positively: "reflected by the high quality of client staff and consultants" the project was implemented with a "high degree of transparency on construction arrangements."<sup>27</sup> The stated indicators of the long-term loan are directly linked to the operational capacity and profitability of the Duqm port during a ten-year monitoring period from the date of completion.

It must be noted that the conditions of the contract were based on the construction laws of Oman as the host country,<sup>28</sup> and that an Environmental

<sup>23</sup> Asian Infrastructure Investment Bank, 'AIIB Inaugurates Overseas Office in Abu Dhabi' (20 September 2023) [www.aiib.org/en/news-events/news/2023/AIIB-Inaugurates-Overseas-Office-in-Abu-Dhabi.html](http://www.aiib.org/en/news-events/news/2023/AIIB-Inaugurates-Overseas-Office-in-Abu-Dhabi.html).

<sup>24</sup> Twenty-five-year term, including a grace period of five years, at the AIIB's standard interest rate for sovereign-backed loans.

<sup>25</sup> Asian Infrastructure Investment Bank, 'Sultanate of Oman Duqm Port Commercial Terminal and Operational Zone Development Project' (PD 0013-OMN, 2016) [www.aiib.org/en/projects/approved/2016/\\_download/duqm-port-commercial/document/20161213051938915.pdf#page7](http://www.aiib.org/en/projects/approved/2016/_download/duqm-port-commercial/document/20161213051938915.pdf#page7).

<sup>26</sup> Asian Infrastructure Investment Bank, 'Project Completion Note Sultanate of Oman: Duqm Port Commercial Terminal and Operational Zone Development Project' (3 November 2023) [www.aiib.org/en/projects/details/2016/approved/\\_download/Oman/AIIB-PCN\\_L000013-Oman-Duqm-Port-Project.pdf](http://www.aiib.org/en/projects/details/2016/approved/_download/Oman/AIIB-PCN_L000013-Oman-Duqm-Port-Project.pdf).

<sup>27</sup> *ibid.*

<sup>28</sup> Sultanate of Oman, ١٩٩٩، الطبعة الرابعة، الأعمال المدنية، الميناء وإنشاء المباني والأعمال المدنية، الطبعة الرابعة، [Standard Documents for Building and Civil Engineering Works (Fourth Arabic Edition), September 1999].

Assessment was conducted as required by the Omani authorities. The project also complied with the AIIB environmental and social safeguards, health and safety requirements, and the Construction Environmental Management Plan. The Environment and Social Policy low-risk category was assigned to the project as it was claimed to be implemented on reclaimed land, without land acquisition, resettlement,<sup>29</sup> or marine works. The SEZAD team received training from international procurement and financial management specialists on tendering, auditing, and best financial practices. All contractor variation orders were subject to approval by the SEZAD's implementation unit.

Thus, the SEZAD has become a model project supported via different institutional layers, including international ones in the form of the multilateral financial institution AIIB as well as by private sector companies from the PRC. Interestingly, there is another layer of stakeholders that might be overlooked – at the regional level within the PRC – as Chinese companies that have invested in the SEZAD often have clear regional affiliations. In summary, it could be said that the SEZAD is an example of input from multilateral, national (e.g., government negotiations), regional (e.g., companies from Ningxia), and private sector levels.

### 3.6 Choice of Ningxia: Winning the Hearts and Minds of the Local Population

It may be surprising that the NHAR, one of the poorest inland areas of China, is playing an active role in the construction of the SEZAD given that it is landlocked in the middle of China. Ningxia has, in recent years, garnered a new life as the Chinese national government has branded it as the gateway to the Arab world and the successor to the historic Silk Road toward the Arabian Sea.<sup>30</sup> Ningxia is relevant not just because of its location but also because of its demographics. It is home to one of the ethnoreligious minorities in China, the Chinese Muslim or Hui people (回族). Their ethnic and linguistic ties to the Muslim world have been a significant factor in enabling investments along the Arabian coast.

<sup>29</sup> The claim that there was no resettlement could be an overstatement and requires a detailed examination of the Environment and Social Policy methodology. The Bedouin lifestyle involves seasonal migratory patterns between the coastal and desert areas that might be overlooked in analysis. Such projects as the SEZAD, as elsewhere in the Gulf, make a sedentary lifestyle for coastal and desert communities inevitable and usually include provision of residential spaces. Duqm fishing village is recorded to have less than 5,000 people, and as evident from the recent (and so far, only) detailed area study, humans were present there as early as neolithic times; there is also a picturesque natural rock formation in the hinterland of the current SEZ that should be considered in the environmental and tourism efforts in the context of the new Duqm. See 'مریم بنت سعید البرطمانیة' ادقم عراقة الارض وجسور المستقبل [Maryam bint Saeed Al-Bartmaniyah, *Advance the Earth's Legacy and Bridges to the Future* (February 2019)].

<sup>30</sup> Matthew S. Erie, *China and Islam: The Prophet, the Party, and Law* (Cambridge University Press 2017) ch 6.

The NHAR government has organized the biannual China-Arab States Expo since 2013 in Yinchuan, cosponsored by the Ministry of Commerce and the China Council for the Promotion of International Trade (which serves as a bridge in promoting trade and investment between China and Arab states). The Expo has also been an opportunity to select appropriate partnerships for international industrial capacity development from the Arab countries, showcasing common investment projects along the BRI, including the Sino-Oman Industrial Park.<sup>31</sup>

The people-to-people exchanges associated with the Duqm development are not limited to high-level diplomatic exchanges but extend to people working within the SEZ. The core pattern is inbound migration of the host country population to China for cultural and educational exchanges as well as Chinese initiatives to support the development of training and professional development centers locally. It was announced that the Duqm project would help build the city, contributing not only to the development of Oman's economic diversification but also to local employment including upgrading the professional skills of young Omani workers. This decision could be seen as both benefiting the local economy and enabling Chinese investors to meet the compulsory Omanization requirement while maintaining a skilled workforce in the Industrial Park.

An initiative to send 1,000 Omani students to China on Wanfang scholarships began in 2018 and funds students to train at the Ningxia Polytechnic in Yinchuan. Courses relate to petrochemical engineering, construction materials, computer software, technology, renewable energy, petroleum equipment, and economic management – thus following the economic profile of the Duqm Industrial Park by developing training courses specifically related to SEZAD skills requirements.<sup>32</sup>

The choice of the NHAR with its historical ties with the Muslim world serves as an apparatus of soft power. Supporting cultural and educational professional training and taking account of the employment perspectives in a predominantly young population could be interpreted as supporting the positive image of China in Oman. Oman Wanfang LLC has further undertaken to build a school for children with special needs and facilitate community greening initiatives, such as planting trees, recycling waste, and using renewable energy

<sup>31</sup> According to the Expo website, the previous five sessions of the Expo have attracted 24 Chinese and foreign dignitaries, 318 Chinese and foreign ministerial-level officials and more than 6,000 domestic and foreign enterprises from 112 countries and regions. A total of 1,213 cooperation projects have been signed in areas including agriculture, new technology, energy and chemicals, bio-pharmacy, equipment manufacturing, infrastructure, 'Internet plus healthcare', and tourism.

<sup>32</sup> *جريدة عمان*, "عمان والصين. علاقات متجذرة وشراكة استراتيجية" سعادة سفيرة جمهورية الصين الشعبية لدى سلطنة عمان [Oman Newspaper, 'Oman and China... deep-rooted relations and strategic partnership' Her Excellency the Ambassador of the People's Republic of China to the Sultanate of Oman] (6 July 2023) [www.omandaily.om/عمان-والصين-علاقات-متجذرة-وشراكة-استراتيجية/na](http://www.omandaily.om/عمان-والصين-علاقات-متجذرة-وشراكة-استراتيجية/na)

sources. Such projects aim to establish a strong and sustainable partnership with the Omani government and people and are examples of very effective public diplomacy that rests on the shared values between two countries, in this case predominately religious values.<sup>33</sup>

### 3.7 “One Province One Country” and Overseas Industrial Parks

The fact that all the major Chinese investors are from the NHAR appears to follow the noteworthy “one province one country” (一省一国) model. This is not an officially stated slogan of the Chinese government, yet it has been frequently used in the development context, especially with respect to the pandemic.<sup>34</sup> However, the slogan, and more importantly, the concept it signifies, had been used in the context of Chinese development before the pandemic, including by one of the investors in the SEZAD.<sup>35</sup> The matching of sovereign states with Chinese provincial and prefectural administrative units is a significant development in China’s industrial transfer policy, and, in the case of the SEZAD, the NHAR is not just transferring capital and technology to the Middle East but also transferring its own domestic institutions and business expertise to inform the setting up of the Industrial Park.

The timeline for selecting such cooperative ventures can be explored using the SEZAD as an example.

- Selecting cooperative countries for overseas park construction:
  - Ningxia SME Association and Ningxia Expo Bureau organized multiple visits of Chinese private sector representatives to Arab countries.
  - Choice of Oman for the Sino-Arab Industrial Park; visits to potential locations in Muscat, Salala, and Duqm. Select the latter for the construction.
- Strengthening the organization and leadership of industrial park construction:
  - Formation of the Sino-Arab Industrial Park construction coordination and promotion working group.
  - The working group promoted mechanisms involving representatives of the:
    - Ningxia NDRC (the National Development and Reform Commission) (for formulation of the overall plan for the park);

<sup>33</sup> For public diplomacy, see Hamed Al-Hasni ‘The Role of China’s Public Diplomacy in Promoting the Belt and Road Initiative in Oman through Communication’ (2019) 17 *Global Media Journal* 32.

<sup>34</sup> 一省包一国 had been used to refer to the pandemic aid packages sent from individual Chinese provinces to specific countries; independent from the pandemic context, there are other provinces with similar connections to the other parts of the world, such as Ningxia to the Arabian Gulf (e.g., Xinjiang and Central Asian countries).

<sup>35</sup> 解孟林, ‘立足“一省一国”模式推进宁夏国际产能合作’(2016) *中国经贸导刊* [Xie Menglin, ‘Promoting Ningxia’s International Production Capacity Cooperation Based on the “One Province, One Country” Model’ (2016) *China Economic and Trade Guide*] 3, 21–22 <https://d.wanfangdata.com.cn/periodical/zgjmdk201603011>. In this short article, the Head of the Ningxia SME Association lists several steps on how the Ningxia investors chose Oman and the designated SEZ for their investment.

- the Information Commission, the Department of Commerce, the Expo Bureau (for supporting its promotion);
- the Department of Finance (to study Omani financial regulation and policies);
- the Foreign Affairs Office (working with Omani partners and learning FDI regulations); and
- the Ningxia Branch of the National Development Bank of China, the Ningxia Branch of the Bank of China (access to finance for overseas investments).
- Planning of the industrial park:
  - Ningxia DRC commissions the Foreign Economic Cooperation Department of the China International Engineering Consulting Corporation (CIECC) to prepare the master plan of the Sino-Arab Industrial Park in Duqm.
  - The CIECC Master Plan aims to:
    - guide the infrastructure construction;
    - attract investments from all over the world;
    - plan industrial fields;
    - lay out major projects; and
    - drive enterprises from Ningxia and regions to go global.<sup>36</sup>
- Determining the areas and priorities for industrial park construction:
  - Cooperation agreement signed between the Ningxia Government and Oman on the industrial park approving the proposed layout of the park as well as the industries to promote given the resource allocation in the region, access to markets, and advantages of the Chinese manufacturing industry, promoting China's international production capacity cooperation.<sup>37</sup>
- Selecting enterprises:
  - Only at this stage does Ningxia invite and select those private companies that are going to be primary investors in the industrial park as well as enterprises from other Chinese provinces that invest in individual projects.
- Formulating work programs for the construction of industrial parks:
  - This stage includes initiating the construction projects in accordance with the master plan.

Such a process for international capacity development, and in particular the role of subnational or province-level actors, is a significant departure from the traditional approach to foreign investment, which has often been characterized by a top-down approach from international institutions. It is a novel approach,

<sup>36</sup> Other provinces and countries come into picture at this stage; prior to this it is solely the responsibility of the Ningxia province.

<sup>37</sup> 中国政府网, '李克强: 用中国装备和国际产能合作结缘世界推动形成优胜优出开放型经济新格局', 2015年4月3日 [Chinese Government Network, 'Li Keqiang: Use Chinese Equipment and International Production Capacity Cooperation to Connect with the World and Promote the Formation of a New Open Economic Pattern That Optimizes Entry and Exit' (3 April 2015)] [www.gov.cn/govweb/guowuyuan/2015-04/03/content\\_2842768.htm](http://www.gov.cn/govweb/guowuyuan/2015-04/03/content_2842768.htm).

specific to China, and the interplay between the provincial entities and enterprises that took place in case of the SEZAD could be generalized to planning and policy approaches used for the other thirty-nine Chinese Overseas Industrial Parks (COIPs),<sup>38</sup> as the majority of them have strong provincial affiliations. By pairing its domestic administrative units with foreign countries, China is taking a more proactive approach to its foreign investment strategy, moving away from Western-led international institutions such as the World Bank and the International Monetary Fund (IMF) and adapting its approach to align more with multilateral development banks such as the AIIB. This gives China more control over the process of industrial transfer and allows it to tailor the process to the specific needs of the target country. Linking state investment funds and state offshore industrial associations with local government administrative units ensures that the capital and technology transferred to, in this case, the Middle East is used in a way that is beneficial to both China and the host country.

In terms of the normative or regulatory framework for this type of foreign investment and international development, there is no specific law that supports Chinese provincial enterprises seeking international cooperation and investments in a similar manner to the law that supports foreign firms investing in China's provinces.<sup>39</sup> The main guiding legal text is the "Guiding Opinions of the State Council on Promoting International Cooperation in Production Capacity and Equipment Manufacturing,"<sup>40</sup> which includes four principles:

- Expanding the scope and scale of cooperation and promoting the export of high-quality production capacity and equipment.
- Improving the policy support system and creating a favorable environment for cooperation.

<sup>38</sup> The Sino-Oman Industrial Park in Duqm, as a major development project, has been listed as one of the twenty overseas key parks of the National Development and Reform Commission of China, one of the sixteen key parks of the Ministry of Commerce of China as well as "20+20 key park" of the China Council for the Promotion of International Trade. COIPs are a form of economic cooperation between China and its partner countries, aiming to promote industrial development, trade, and investment. However, not all COIPs are the same in terms of their design, operation, and outcomes. One of the key differences is the degree of internationalization, which refers to the extent to which the COIPs attract and accommodate non-Chinese firms and stakeholders.

<sup>39</sup> For example, the Catalogue of Industries for Guiding Foreign Investment classifies outbound investment projects into encouraged, restricted, and prohibited categories and provides preferential policies for the encouraged projects, such as tax incentives, foreign exchange support, and insurance services. See 发展改革委 商务部, '鼓励外商投资产业目录 (2022年版)' [National Development and Reform Commission and Ministry of Commerce, 'Catalogue of Industries Encouraging Foreign Investment' (October 2022)] [www.gov.cn/zhengce/zhengceku/2022-10/28/content\\_5722417.htm](http://www.gov.cn/zhengce/zhengceku/2022-10/28/content_5722417.htm).

<sup>40</sup> 国务院, '国务院关于推进国际产能和装备制造合作的指导意见', 国发〔2015〕30号 (2015年05月16日) [State Council, 'Guiding Opinions of the State Council on Promoting International Cooperation in Production Capacity and Equipment Manufacturing', Guofa 2015 No. 30 (16 May 2015)] [www.gov.cn/zhengce/content/2015-05/16/content\\_9771.htm](http://www.gov.cn/zhengce/content/2015-05/16/content_9771.htm).



- Strengthening the coordination and cooperation mechanism and enhancing the overall effectiveness of cooperation.
- Promoting green development and fulfilling social responsibilities.

Those four principles can be illustrated using the SEZAD case since it is an example of the use of Chinese equipment and international production capacity in an internationalized investment environment and the attempt to promote new patterns of an open economy with optimizing export flows, while also promoting green development.

### 3.8 The Security Dimension

In addition to its strategic location, Duqm has a number of other qualities that make it a notable location for trade and investment. First, the port has a deepwater harbor that can accommodate large ships, and China is particularly interested in Oman's expanding road networks and railway system.<sup>41</sup> These developments will connect the new Sohar Port and Free Zone to the existing Omani and GCC transportation corridors that extend into the UAE and Saudi Arabia. This will give Oman a competitive advantage over other established logistical and transportation hubs in the region.

Second, the SEZAD is characterized by a diverse portfolio of primary industries within the industrial zone, whether they concern petrochemicals, natural gas processing, oil refining, building materials, chemicals, or the halal food industry. Even those industrial plants that are not Chinese-owned might still serve Chinese economic security interests; it is very important to trace the movement of intermediary goods as well as determining the markets for the final products. Looking at the China–Oman trade statistics, since most Omani petrochemicals and crude oil are exported to the PRC, plants such as oil refineries should still be considered strategically important for China even though Chinese investors might not have any stake in the actual plant. It is likely that once the industrial park is fully operational, it might serve as an international platform for meeting China's growing demand for the energy products from the Gulf. Thus, the multimodal connectivity that makes the SEZAD work must be considered as significant within the overall industrial manufacturing enterprise.

Third and perhaps most prominently, Duqm's strategic location also has implications for regional security. The port is situated relatively near important geopolitical hotspots, such as Yemen, where Oman is mediating the ongoing

<sup>41</sup> The land transport connectivity of Duqm to other Arabian cities had been primarily managed by the GCC framework. Though the SEZAD railroad access was a priority for the distant future even a decade ago (see GCC Secretariat, '2013, *تقديم سير عمل مشروع سكة حديد دول مجلس التعاون*, [Presenting the workflow of the GCC railway project, 2013] [www.gcc-sg.org/ar-sa/CooperationAndAchievements/Projects/Railway/Documents/%20مشروع%20عمل%20سير%20تقديم%20سكة%20حديد%20دول%20مجلس%20التعاون.pdf](http://www.gcc-sg.org/ar-sa/CooperationAndAchievements/Projects/Railway/Documents/%20مشروع%20عمل%20سير%20تقديم%20سكة%20حديد%20دول%20مجلس%20التعاون.pdf)). The Duqm link to the Sohar line as well as to Riyadh non-passenger lines is already considered part of the GCC Railway Project.

conflict between the Saudi-backed coalition and Houthis, as well as the Horn of Africa. This has drawn attention to its potential military and security significance. The development of the port could have implications for the balance of power in the region, and it could also potentially be used as a base for military operations.

In 2017, just a year after signing the Agreement between Oman Wanfang and the SEZAD, Duqm became a focus for military cooperation between Oman and its allies. The UK Ministry of Defence, Oman's major economic and security partner, announced the expansion of the UK Joint Logistics Support Base at Duqm by investing an additional US\$31 million.<sup>42</sup> In 2018, this was followed by an annex to an existing maritime security memorandum of understanding (MOU) signed between India and Oman,<sup>43</sup> granting special access for the Indian Navy to Duqm port as well as to a dry dock and maintenance facilities. Also in 2018, the United States, which has the highest military naval presence in the Gulf,<sup>44</sup> signed a Framework Agreement with Oman expanding US access to facilities and ports in Salalah and Duq.<sup>45</sup> The agreement gave the US Navy berthing rights at Duqm for logistical and maintenance purposes. The maritime security cooperation between Oman and its Western allies goes beyond just granting access and includes joint naval training and anti-piracy cooperation.

Oman also maintains military cooperation activities with the People's Liberation Army Navy (PLAN), including joint training and coastline security cooperation.<sup>46</sup> The military value of the Duqm port to PLAN, however, should be considered as very low. Even if we assume "dual-use" of the port,<sup>47</sup> it would still be of limited value to PLAN given that it already has a military presence much closer to the Bab-la-Mandab strait (between Yemen on the Arabian Peninsula and Djibouti and Eritrea in the Horn of Africa). PLAN has negligible (if any)

<sup>42</sup> UK Ministry of Defence, 'The Defence Secretary Has Announced a Further £23.8 Million Investment in the UK Logistics Hub at Duqm Port' (12 September 2020) [www.gov.uk/government/news/defence-secretary-announces-investment-in-strategic-omani-port](http://www.gov.uk/government/news/defence-secretary-announces-investment-in-strategic-omani-port).

<sup>43</sup> The Economic Diplomacy Division, Ministry of External Affairs of India, 'PM Modi's Oman Trip Brings Several New Agreements' (11 February 2018) <https://indbiz.gov.in/pm-modis-oman-trip-brings-several-new-agreements/>.

<sup>44</sup> The main US naval base and support facilities in the Gulf are located in Bahrain.

<sup>45</sup> US Embassy in Oman, 'U.S. Statement on the Signing of the Strategic Framework Agreement' (24 March 2019) <https://om.usembassy.gov/u-s-statement-on-the-signing-of-the-strategic-framework-agreement/#:~:text=On%20March%2024%2C%202019%2C%20the,ports%20in%20Salalah%20and%20Duqm.>

<sup>46</sup> China Military Online Bilingual News, (中国海军第44批护航编队14日结束对阿曼的友好访问, 于当地时间上午9时离开阿曼首都马斯喀特) [The 44th Chinese naval escort taskforce concluded its goodwill visit to Oman and left the capital city Muscat on 14 October local time] (16 October 2023) [http://eng.chinamil.com.cn/BILINGUAL/News\\_209203/16259094.html](http://eng.chinamil.com.cn/BILINGUAL/News_209203/16259094.html).

<sup>47</sup> Isaac B. Kardon and Wendy Leutert, 'Pier Competitor: China's Power Position in Global Ports' (2022) 46 *International Security* 9–47 [https://doi.org/10.1162/isec\\_a\\_00433](https://doi.org/10.1162/isec_a_00433); arguing that the possibility of "dual-use" of China's overseas ports, meaning for both commercial and military functions, remains largely hypothetical although "ascendance in global maritime trade and transportation creates the latent capacity for it."

operational control over the SEZAD port as it is neither owned nor operated by Chinese companies (in contrast to other ports, e.g., Gwadar or Dar as Salam).

Such a wide range of military partnerships and the utilization of Duqm for military purposes puts Oman in a situation similar to Djibouti, which has a comparable, if more permanent, coexistence of different military powers (although not because of its independent neutrality policy but driven by financial motivation). The resemblance of the SEZAD to Djibouti's Doraleh Port lies not as much in the "dual-use" aspect but in the development pattern, specifically the import of the Shekou model (蛇口综合开发模式) in Djibouti.<sup>48</sup> Shekou, similar to Duqm, a small fishing village in Shenzhen in China's Guangdong province, was transformed into a modern center using the port–zone–city model to develop the port infrastructure, an industrial park, and the adjacent urban zones.

### 3.9 The Shekou Model

The SEZAD covers a multifaceted and integrated coastal urban-industrial space that is divided into eight separate and interconnected zones grouped into three main areas: port, industrial park, and city. This model envisages the initial development of the port with the subsequent gradual development of the industrial district and finally the residential area.<sup>49</sup> For the SEZAD (Figure 3.3.2):

#### Maritime:

- Port area: This zone includes a world-class deepwater port for shipping and maritime trade, the first phase of the 2.25 km long terminal with eight commercial berths. Two dry docks are to be installed for ship repair and maintenance, one of the largest facilities in the MENA, each 410 meters long, and a terminal with a total length of 2.8 km.
- Fisheries center: This zone supports Oman's largest 10 m deep fishing port, with two long breakwaters, a 1.3 km fixed berth, and six floating berths. It provides facilities for processing and marketing fish and seafood.

<sup>48</sup> Comparisons between Doraleh and Shekou are very common in both Western and Chinese press and academic literature (see Jevans Nyabiage, 'China Merchants Signs US\$350 Million Deal for Shekou-Style Revamp of Djibouti Port' (*South China Morning Post*, 5 January 2021) [www.scmp.com/news/china/diplomacy/article/3116407/china-merchants-signs-us350-million-deal-shekou-style-revamp](http://www.scmp.com/news/china/diplomacy/article/3116407/china-merchants-signs-us350-million-deal-shekou-style-revamp)) primarily due to the same developer being involved. The resemblance with the Shekou model is not just in the spatial arrangement but also in the development approach based on public–private collaboration in the mixed-use urban spaces to promote economic and social transformation. There are profound differences, however. First and foremost, the stakeholders concerned are not comparable because, in the case of the SEZAD, Chinese investors and the Omani government combined in setting up and hosting the SEZ whereas in the case of Shekou it is just a single country (China).

<sup>49</sup> 高江虹, "蛇口模式 4.0" 落地吉布提, 招商局雁形出海, 21 世界经济报道 ["Shekou Model 4.0" launched in Djibouti, China Investment Promotion Bureau goes overseas] (5 July 2017) [www.sohu.com/a/154520614\\_119689](http://www.sohu.com/a/154520614_119689).



**Figure 3.3.2** Implemented and planned zones at the SEZAD

### **Industrial:**

- Industrial zone: This zone is designed to attract investment in a variety of industries, including manufacturing, logistics, and energy.
- Logistics system: This zone provides transportation and storage facilities for goods and materials moving through the park, warehousing facilities, distribution centers, and cargo re-trading services. The airport, currently in operation on a single runway, is expected to be completed by 2024, with an annual design capacity of 500,000 passengers and 50,000 tons of cargo.

### **City:**

- New town: This zone provides housing, schools, and other amenities for the park's employees and residents.
- Central business district: This zone is the commercial heart of the park and is home to banks, offices, and other businesses.
- Tourism and recreation area: This zone offers a variety of tourist attractions, such as beaches, resorts, and golf courses.
- Education and training center: This zone provides training and educational opportunities for the park's workforce.

The main similarity between the Shekou model and the SEZAD is the emphasis on foreign capital and the measures taken to attract it. Duqm stands out as an example of a more internationalized COIP, compared to other COIPs that are mainly oriented toward serving Chinese companies. Even though a large proportion of the project has been funded by Chinese private and development cooperation funds, European and Middle Eastern enterprises are supporting a number of infrastructure projects. For example, the port component is managed via a 50:50 joint venture between the Omani government and the Antwerp Port Group of Belgium (thus the special guests at its inauguration), the dry dock was

built by Daewoo Shipbuilding Engineering Company of South Korea and is managed by the Oman Dry Dock Company, and the Omani Investment Authority is the sole manager of the fishing port. Similar patterns prevail beyond the maritime zone, such as a diverse range of stakeholders, which suggests that the development of the SEZAD should not be considered merely as a Chinese project.

## 4 Conclusion

The case of Duqm is an example of facilitated Chinese investment in a host country located in a globally strategic region of the world. The Chinese have benefited from favorable investment conditions while Oman has maintained its independent foreign and investment policy. Such an approach has manifested itself as a high degree of internationalization in the newly established port city and a potential influx of Western and GCC capital in the area where Chinese investments are concentrated.

As the Duqm port is not yet operational at full capacity, it is not clear at what point the return on investment will be high enough to make statements on the profitability of the project. Apart from the beneficial treatment for Chinese investors and preferential conditions for their investments, there are obvious strategic motivations for the Chinese, which are further enhanced by public diplomacy measures directed toward the local population and host country government.

## 5 Discussion Questions and Comments

### 5.1 For Law School Audiences

1. Given that the SEZAD is located in one of the most internationalized of the SEZs that Chinese companies are working in, what does the level of internationalization mean for dispute resolution? Many of the SEZAD contracts use local law, but would foreign investors have sufficient trust in local law for the purpose of resolving their disputes? If not, what are the alternatives? In discussing this question, consider China's push to build Alternative Dispute Resolution both within and outside of China.<sup>50</sup>
2. This case mentions different layers of funding for the development of the SEZ, ranging from provincial to multilateral levels. How do Chinese local administrative structures as well as multilateral strategies influence China's trade and development policy with the Middle East?
3. The case also highlights that the projects had been implemented using the local law and complying with local industry standards. Is this also the case with other Chinese outbound investment projects you are aware of?

<sup>50</sup> See Matthew S. Erie, 'The Soft Power of Chinese Law' (2023) 61 *Columbia Journal of Transnational Law* 1.

## 5.2 For Policy School Audiences

1. How does regional security shape the construction of the SEZAD? Did the planners of the SEZAD take such concerns into consideration, including what it means to have the industrial park near the highly militarized zone for (a) China, (b) the Omani government, and (c) the wider Gulf region? What are the risks and opportunities for the parties involved given that the Chinese have commercial activities in a port that is used by NATO? What are the possible implications of Chinese trade and development on Oman's security interests?
2. It has been a decade since Xi Jinping proposed the grand goal of the Chinese foreign and development policy, the BRI.<sup>51</sup> How does this case study shed light on the soft power aspects of such initiatives such as the BRI and the relatively newer Global Development Initiative and Global Civilization Initiative?<sup>52</sup> What is the role and value of people-to-people exchanges, common religious/historical backgrounds, and education and training in this process?
3. What light may the SEZAD project shed on China's possible policy choices in the MENA region? China has also played a decisive role in the normalization of the Saudi–Iran relations, which traditionally had been the domain of Omani foreign policy. It has also shown a strong stand on the recently revived conflict in Gaza. Given its interests, what is the possible policy line China could maintain in the regional conflicts of the Middle East? Given that Gulf–China relations have been elevated to the level of comprehensive strategic partnerships, and recognizing that the former relies extensively on US security and geopolitical assistance, what might the hard power projections look like in the greater Indian Ocean region in the case of potential escalation of the relationships between the great powers?

## 5.3 For Business School Audiences

1. When the SEZAD was first announced, it consisted of just the port and the refinery. It takes confidence by investors to invest at such an early stage of development. Nowadays, geopolitical risks play a crucial role in investment considerations, especially when it comes to the two superpowers, the United States and China, with ongoing technological rivalry and trade wars. What could be the geopolitical considerations for Western companies investing in the SEZAD as well as risks from the perspective of the

<sup>51</sup> Encyclopaedia of Chinese Diplomacy in the New Era, '共建“一带一路”' [Jointly build the "Belt and Road"] [http://cn.chinadiplomacy.org.cn/2023-07/27/content\\_86046791.shtml](http://cn.chinadiplomacy.org.cn/2023-07/27/content_86046791.shtml).

<sup>52</sup> Encyclopaedia of Chinese Diplomacy in the New Era, '全球发展倡议' [Global Development Initiative] [http://cn.chinadiplomacy.org.cn/2022-09/28/content\\_78438507.shtml](http://cn.chinadiplomacy.org.cn/2022-09/28/content_78438507.shtml);  
Encyclopaedia of Chinese Diplomacy in the New Era, '全球文明倡议' [Global Civilization Initiative] [http://cn.chinadiplomacy.org.cn/2023-08/04/content\\_97741364.shtml](http://cn.chinadiplomacy.org.cn/2023-08/04/content_97741364.shtml).

Chinese companies when developing such an internationalized industrial park? To what extent would the Chinese-backed projects and commitments to the SEZAD have encouraged investment from the West and the Gulf region?

2. Duqm has been a major Chinese investment, yet the size of the FDI from China has fallen considerably (from billions to several hundred million US dollars) during the later stages of development. Currently, the focus for the SEZAD has shifted from heavily industrialized production and transportation of minerals toward more green energy and digital initiatives, supported mainly by British, European, and Korean investors. For example, the most sizable investments in the SEZAD in 2023 did not revolve around the Sino-Oman Industrial Park but rather focused on Hydrom,<sup>53</sup> which is coordinating national interest in green hydrogen and aiming to build the world's largest production plant of renewable hydrogen by 2030. What would such a shift mean for China's interests, including, potentially, its hydrocarbon trade? How would the medium-term investment horizon change for those Chinese companies that have been concentrating on the oil and gas production in the SEZAD?

<sup>53</sup> Hydrogen Oman, 'About Hydrom' <https://hydrom.om/Hydrom.aspx?cms=iQRpheuphYtJ6pyXUGiNqiQQw2RhEtKe#about>.